



JULY 2021

Uttlesford Employment Needs & Employment Land Assessment

Commercial Property Market Dynamics Paper

Iceni Projects Limited on behalf of
Uttlesford District Council

July 2021

ICENI PROJECTS LIMITED
ON BEHALF OF
UTTLESFORD DISTRICT
COUNCIL

Uttlesford Employment Needs &
Employment Land Assessment
COMMERCIAL PROPERTY MARKET DYNAMICS
PAPER

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1. INTRODUCTION

- 1.1 Uttlesford District Council has commissioned Icen Projects and SQW to prepare an Economic Needs and Employment Land Assessment to inform the preparation of its new Local Plan and inform the Council's role in supporting the District's economic development.

District's Geography

- 1.2 Uttlesford is a principally rural district sitting in North West Essex. It includes two market towns – Saffron Walden and Great Dunmow – and a range of rural settlements. Around 70% of the District's population live within the villages and countryside outside of the main towns. Larger villages within the District include Stansted Mountfitchet, Thaxted, Elsenham, Great Chesterford, Hatfield Heath, Newport and Takeley.
- 1.3 Stansted Airport sits within the District, but larger settlements in proximity to it such as Bishops Stortford¹ and Harlow lie outside of the District's boundaries. Braintree equally sits beyond but relatively close to the District's boundaries to the west.
- 1.4 The M11 runs north/south through the District. Junction 8 (Stansted/ Bishops Stortford) falls within the District, with Junction 9/9A (Great Chesterford) sitting on the District's northern boundary. Great Chesterford Research Park, in the north of the District, forms part of the wider South Cambridgeshire research and bio-tech cluster. The A120 dual carriageway runs east through the District from Bishops Stortford/M11 Junction 8 to Braintree, Colchester and the Port of Harwich.
- 1.5 There are a number of rail stations in the District served by Greater Anglia services. There are stations at Stansted Mountfitchet, Stansted Airport, Elsenham, Newport, Audley End, and Great Chesterford on the London Liverpool Street-Cambridge line. Stansted Airport is also served by Cross Country trains which run to Peterborough, Leicester and Birmingham.
- 1.6 The south-western fringes of the District fall within Metropolitan Green Belt. This includes settlements such as Margaret Roding, Leader Roding, White Roding, Hatfield Heath Little Hallingbury, and Birchanger.

This Paper

- 1.7 This Paper provides an assessment of commercial property market dynamics considering first the office sector, followed by industrial. Icen's analysis benchmarks performance relative to the Property

¹ Bishops Stortford sits within East Hertfordshire

Market Area (which additionally includes Epping Forest, East Hertfordshire and Harlow) together with the regional position for key indicators.

2. OFFICE MARKET

2.1 The recent trend in office markets has been of subdued activity as a result of Covid-19 and the associated effect on the wider economy. Despite the overall subdued outlook, CBRE expect certain office sectors to see above average activity including the lifesciences sector which is an important component in the northern part of Uttlesford District.

Office Stock

2.2 Based on VOA data, Uttlesford contains around 94,000 sq.m of office floorspace, equating to 22% of the total office stock across the FEMA. Whilst East Hertfordshire and Harlow have seen a notable decline in office floorspace over the last decade, the stock in Uttlesford has declined only modestly in net terms – with a loss of 4,000 sq.m (-4%). This is broadly in line with trends across the East of England.

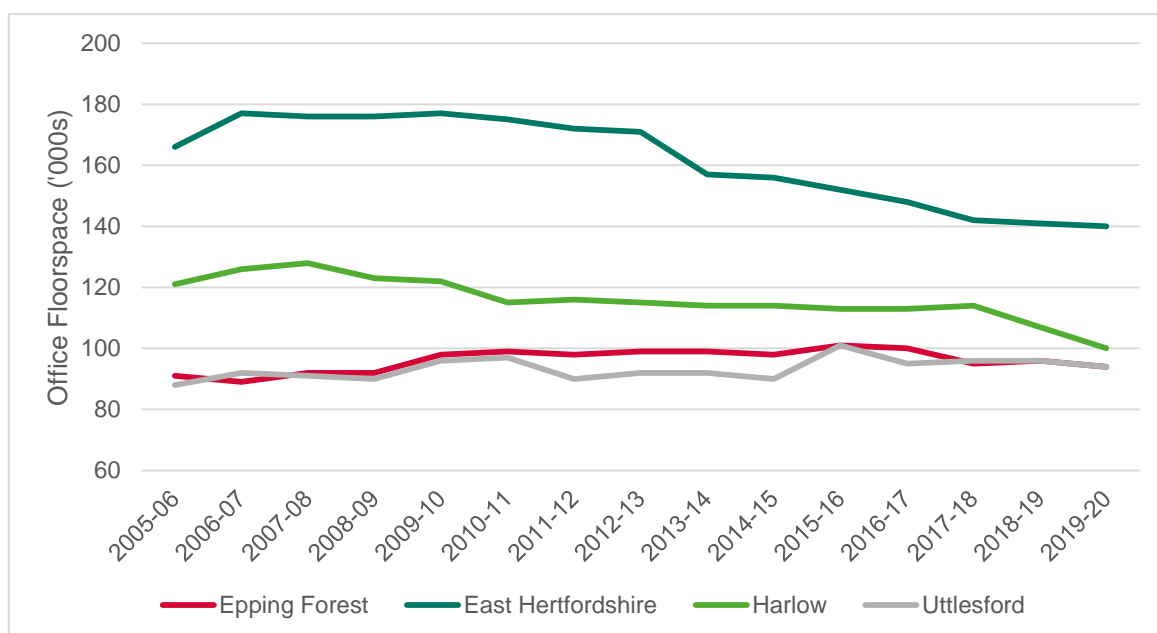
Table 2.1 Office Stock in the District and FEMA, 2019-20

	Stock, 2020 (sq.m)	% FEMA Stock	Stock Change, 2010-20	% Change, 2010-20
Epping Forest	94,000	22.0%	-4,000	-4%
East Hertfordshire	140,000	32.7%	-37,000	-21%
Harlow	100,000	23.4%	-22,000	-18%
Uttlesford	94,000	22.0%	-2,000	-2%
FEMA	428,000		-65,000	-12%
East of England	7,041,000		-374,000	-5%
England	84,598,000		-5,000	0%

Source: VOA Non-Domestic Rating Statistics

2.3 As the chart below shows, whilst the scale of office floorspace in the FEMA has historically been greatest in East Herts, followed by Harlow, the reduction in floorspace in these areas seen – in particular since the introduction of permitted development rights in 2013 – has reduced these differentials.

Figure 2.1: Change in Office Floorspace, 2005-20



Source: VOA Non-Domestic Rating Statistics

2.4 Data on the average size of office properties in the District is lower than in the other parts of the FEMA and across wider (regional/ national) geographies, and notably half that in Harlow. This reflects the rural nature of the District and focus on SME businesses.

Table 2.2 Average Size of Office Properties, 2020

	Stock, 2019-20 (sq.m)	Rateable Properties	Average Floorspace (sq.m)
Epping Forest	94,000	930	101
East Hertfordshire	140,000	1,000	140
Harlow	100,000	470	213
Uttlesford	94,000	890	106
FEMA	428,000	3,290	130
East of England	7,041,000	38,540	183
England	84,598,000	411,000	206

Source: VOA Non-Domestic Rating Statistics

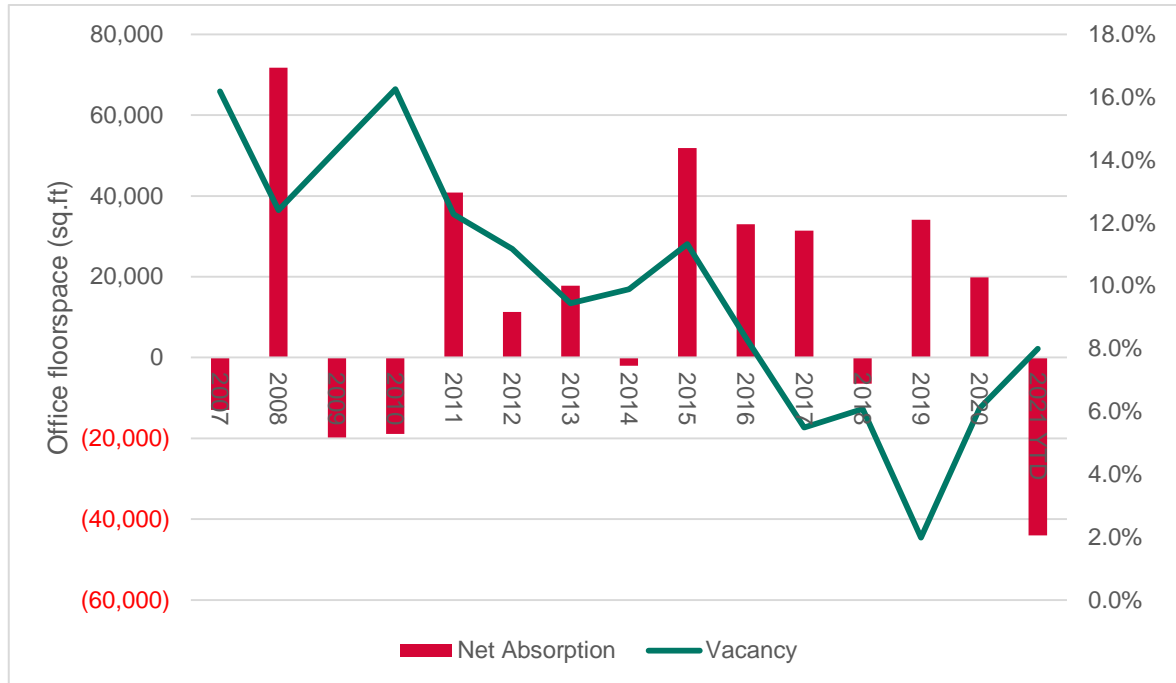
2.5 We would note that CoStar shows a slightly higher level of office stock in the District at 107,800 sq.m than the VOA data. CoStar ranks the quality of existing office stock, showing that of this just 8,000 sq.m (7.4%) of stock is ranked Grade 4 or 5 Star.

Take-Up and Net Absorption

2.6 The District has seen positive net absorption in the majority of years over the 2010-20 decade, meaning that more office floorspace was being take-up than coming onto the market (either through existing office space being vacated or new-build development). As the graph below shows, this has

resulted in a reduction in the level of vacant floorspace which fell to a low-point of 2.0% in 2019. This has however since risen and stands at 8.0% in mid 2021.

Figure 2.2: Office Net Absorption and Vacancy Rate – Uttlesford District



Source: Icen analysis of CoStar data

2.7 The trends in net absorption over time show an average take-up of 21,200 sq.ft of office space (2,150 sq.m) per annum over the 2011-20 period. However the negative net absorption of 4,086 sq.m in 2021 to date has driven a rise in the vacancy rate.

Table 2.3 Office Net Absorption and Vacancy Rate – Uttlesford District

	Annual Net Absorption (sqm)	Vacancy Rate at End of Period
2007-10	467	16.3%
2011-15	2,226	11.3%
2016-20	2,078	6.1%
2021 YTD	(4,086)	8.0%

Source: Icen analysis of CoStar data

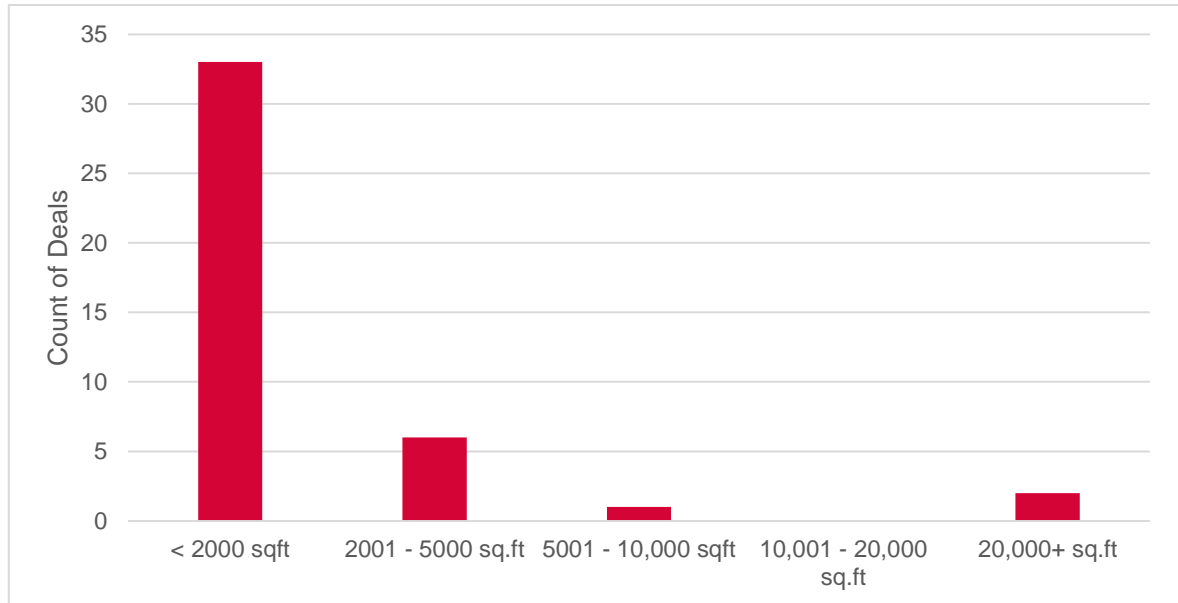
2.8 The overall vacancy rate for office stock at 8% is above the average for Essex (4.4%). However this is reflective of vacant lower grade space, with no vacancy within the stock of Grade 4 or 5 Star space.

Leasing Activity

2.9 The median size of office floorspace leased in the District over the last three years (2018-20) has been of 850 sq.ft, reflecting the focus of the District’s economy towards micro- and small businesses.

Indeed as the chart below shows, leasing activity is strongly focused on office units of < 2,000 sq.ft (185 sq.m). CoStar records just nine larger deals.

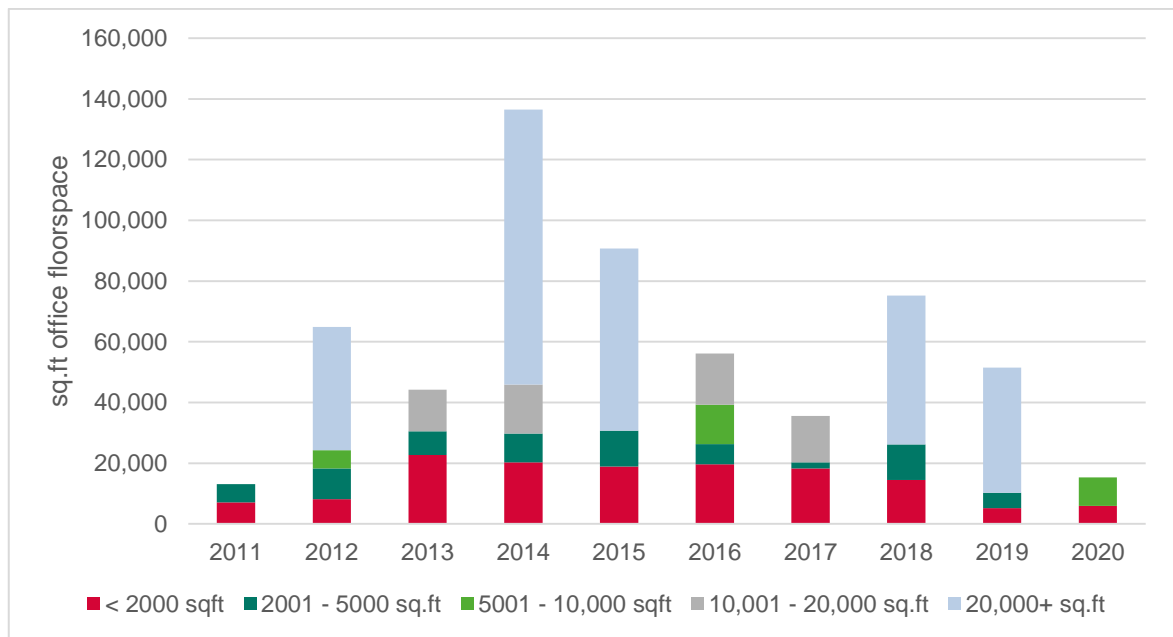
Figure 2.3: Leasing Activity by Size Band – Uttlesford, 2018-20



Source: Icen analysis of CoStar data

2.10 However the larger deals disproportionately affect overall take-up, as the Figure below shows. Strong take-up in 2014 reflected the leasing of 49,000 sq.ft of space at Parsonage Road in Takeley to Weston Homes and of 41,500 sq.ft of space at Chesterford Research Park to Retroscreen Virology Ltd. 2015 similarly saw a single larger deal for 60,000 sq.ft of space at Chesterford Research Park to Biofocus. 2018 then saw Weston Homes take a further 49,000 sq.ft at Parsonage Road; with 2020 seeing 41,300 sq.ft unit occupied by Lonza at Chesterford Research Park.

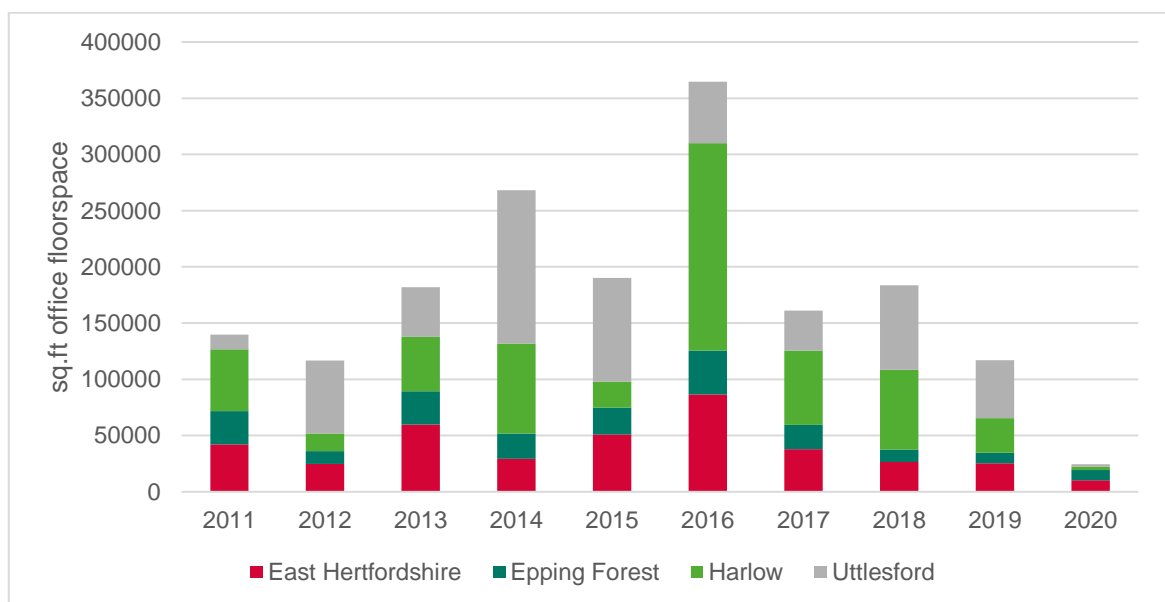
Figure 2.4: Office Leasing Activity by Size Band – Uttlesford



Source: Icen analysis of CoStar data

- 2.11 The analysis highlights the influence of a few larger deals on overall take-up; and the role which development at Chesterford Research Park in particular has had on office/R&D take-up.
- 2.12 The chart below shows take-up across the wider Property Market Area. Over the last 10 years, CoStar records take-up of 175,000 sq.ft (16,200 sq.m) per annum with Uttlesford accounting for on average a third (33%) of this, consistent with overall office take-up in Harlow (33%). East Hertfordshire has then accounted for 22% and Epping Forest 12%.

Figure 2.5: Office Take-Up across the Property Market Area

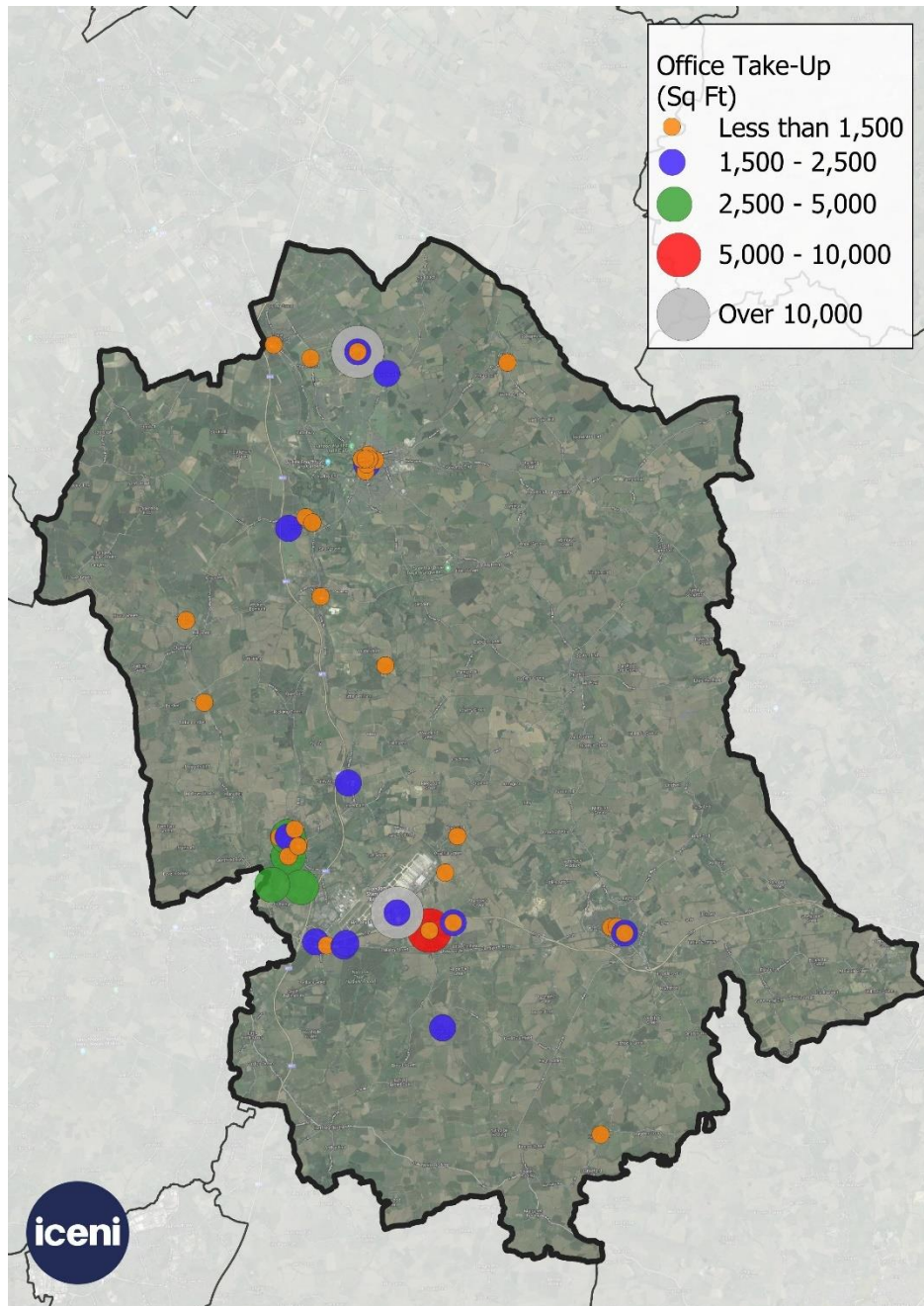


Source: Icen analysis of CoStar data

2.13 If a shorter time frame is used, Uttlesford has accounted for 40% of take-up in the PMA, with weak take-up in both Epping Forest and East Hertfordshire.

2.14 Figure 2.5 below shows the spatial distribution of office leasing activity in the District between 2015-20.

Figure 2.5: Office Leasing Activity in Uttlesford, 2015-20

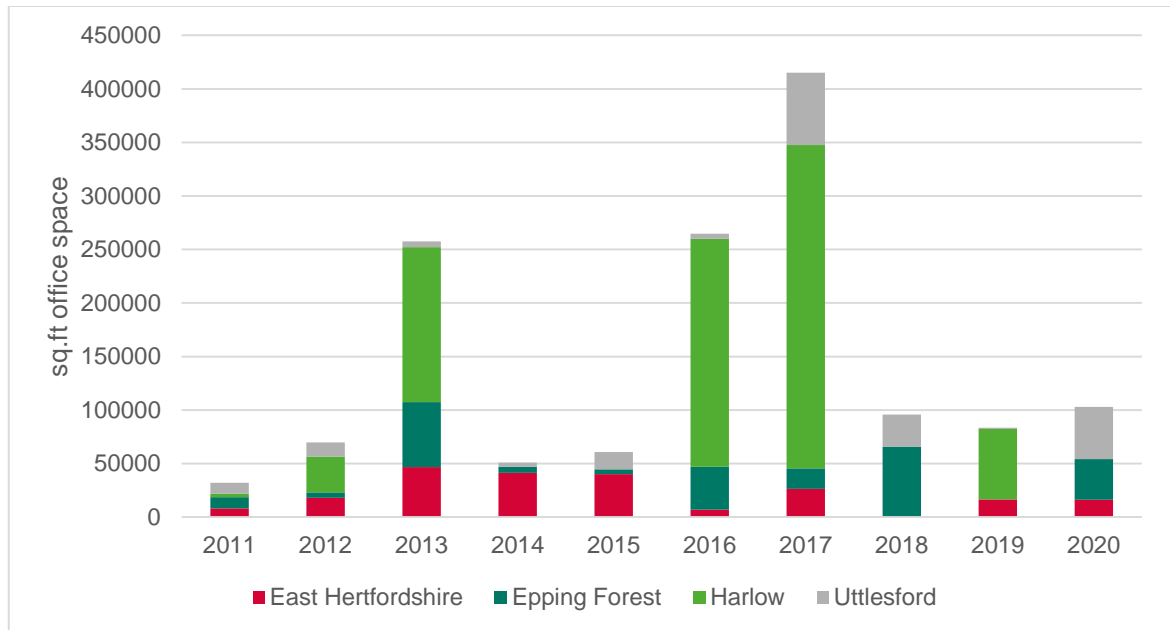


2.15 Recent new-build development of office space has been modest. The largest building constructed has been of 49,000 sq.ft at Innovation Centre, Parsonage Road for Weston Homes. Smaller schemes at Stansted Courtyard (9,476 sq.ft) and Thremhall Park (10,551 sq.ft) were completed in early 2020.

Freehold Activity

- 2.16 The chart below shows freehold sales of office space.² Over the last 10 years, CoStar records take-up of just over 200,000 sq.ft of office space (18,700 sq.m) in Uttlesford accounting for around 14% of the total across the Property Market Area. Year-on-year take-up can be significantly influenced by the larger deals.

Figure 2.6: Freehold Office Sales over Last 10 Years

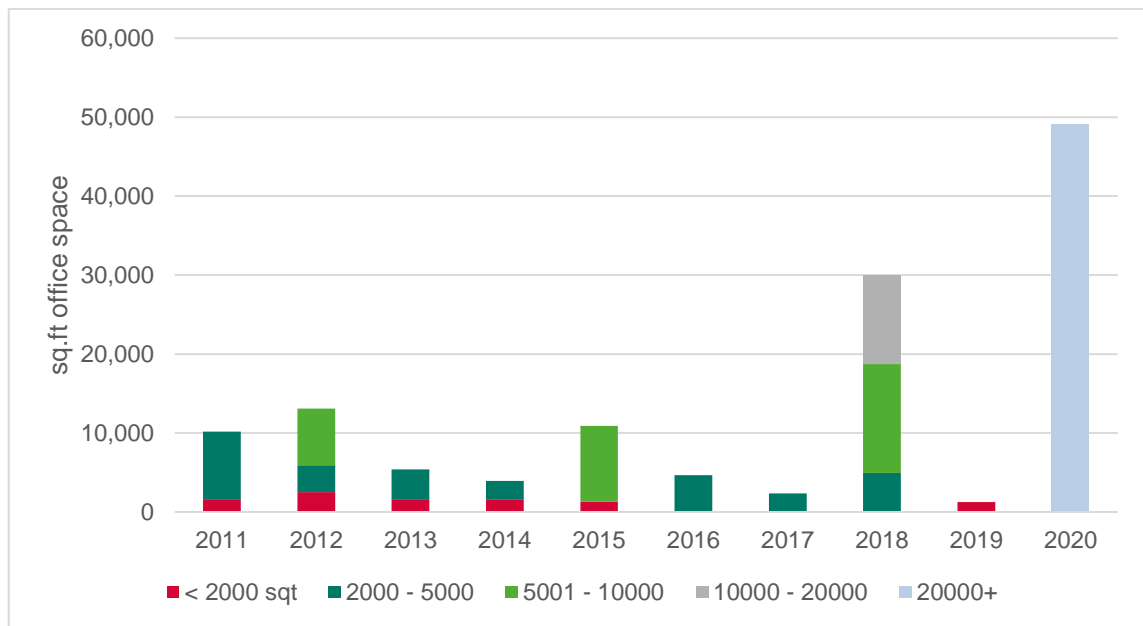


Source: Icen analysis of CoStar data

- 2.17 In most years, freehold activity in Uttlesford is focused on units of < 5,000 sq.ft. There have however been one recent deal: the delivery of an Innovation Centre at Parsonage Road for the Council, which completed in 2020.

² Icen has sought to exclude investment transactions

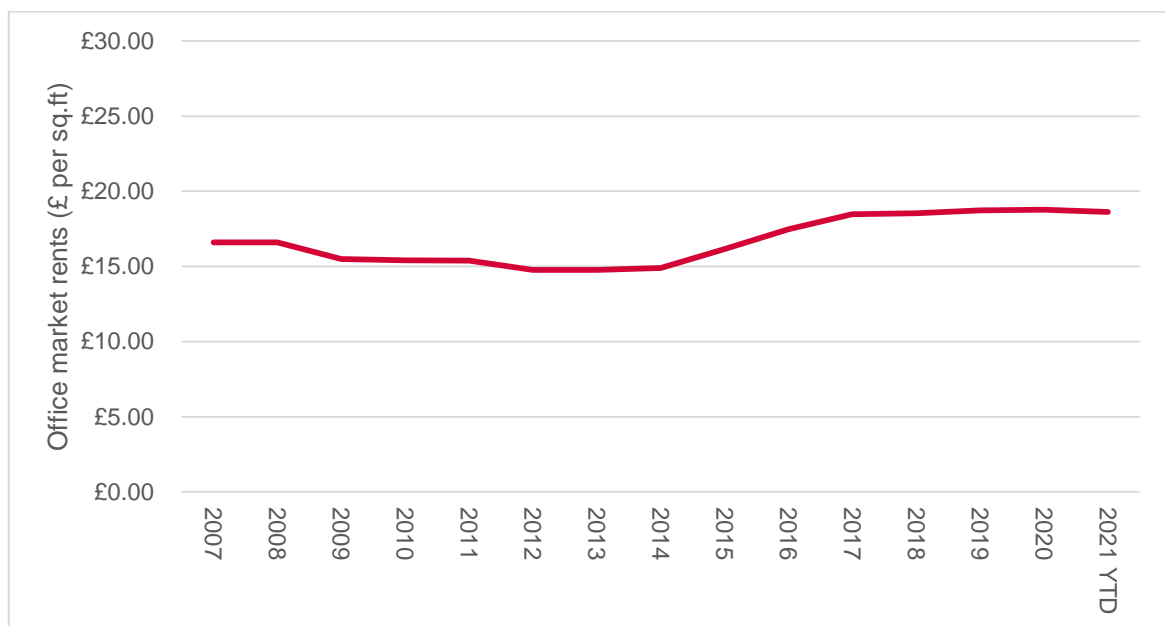
Figure 2.7: Freehold Sales in Uttlesford, 2011-20



Property Costs

2.18 As availability has fallen in recent years, rents have increased growing from £14.90 psf in 2014 to £18.70 psf in 2019. They have remained broadly stable since. The market expectation is that rents will weaken slightly in the short-term.

Figure 2.6: Office Rental Trend



Source: Icen analysis of CoStar data

2.19 Headline rents for new/refurbished stock appear to have hit around £20 psf. This is however not sufficient to support speculative development; and thus in the short-to-medium at least we would

expect pre-lets to be required before new office floorspace is brought forward. This compares for instance with headline rents of close to £50 psf in Central Cambridge and rents exceeding £40 psf for new-build fitted lab space.³

- 2.20 For freehold sales, the average value stands currently at around £214 per sq.ft based on CoStar data for Uttlesford.

Office Market Outlook

- 2.21 At the current time the market is relatively uncertain, not least due to uncertainties associated with how home working may change companies' office floorspace requirements, impacts of PDR/ further use class changes, and uncertainties as to whether some London-based firms may seek to open satellite offices in commuter-belt locations or move out of the City. Larger companies will principally seek high quality office space, with clear floor plates that allow for potentially more generous office spacing than pre-Covid.
- 2.22 Flexible working is long established in the UK, with Eurostat reporting that 22% of UK-based employees were occasionally working from home pre-pandemic – twice the EU average. Growth in home working, which seems likely, is therefore an acceleration of an existing trend.

Agent Feedback

- 2.23 Icenis has spoken to a number of commercially active local agents to understand current market conditions. Agents are clear that office demand is focused generally on local SME businesses and particularly space of up to 20,000 sq.ft. The market is difficult at the time of writing (July 2021) influenced by Covid-19. Coke Gearing report that outstanding requirements are all for small and medium-sized units, with little demand for larger HQ office space.
- 2.24 Headline rents are quoted at £21 psf for Grade A office space such as at Enterprise House, close to Stansted Airport, but rents of around £19 psf are achieved. Higher rents in the early 20s are required for speculative development. The new-build office scheme at Tristal Towers has been on the market for five years, but appears unlikely to come forwards in the short-term given viability challenges (influenced by the rental tone and high build costs) and poor access.
- 2.25 The local market in Saffron Walden is focused typically on units of 500 – 1,500 sq.ft. Deals of over 20,000 sq.ft are rare. It is clear that there has been relatively little activity in the office market over the last year (as supported by the CoStar data). Mullucks report some inquiries from small

³ <https://www.savills.co.uk/insight-and-opinion/savills-news/304868-0/cambridge-office-market-remains-resilient-despite-impact-of-covid-19>

businesses, particularly where the owner lives locally, for satellite offices instead of commuting to London or Cambridge.

3. INDUSTRIAL AND LOGISTICS MARKET

- 3.1 Whilst other sectors have witnessed disruption from Covid-19, warehousing and logistics is a property sector which has thrived driven in particular by the substantial growth seen in online sales, continuing (and accelerating) the trend we have seen in recent years of growing demand for logistics space.
- 3.2 Nationally LSH report that UK industrial and logistics take-up reached 59.7 million sq.ft in 2020, a record level, influenced in particular by strong take-up for large and extra large units (100,000 sq.ft+). Whilst this was influenced in particular by the very substantial (and partially temporary) shift towards online retailing, the logistics sector has been very active now for a number of years and there is no current evidence of this abating. Brexit is clearly disrupting some industrial activities, and LSH report that this may lead to some restructuring of supply chains which could demonstrate some additional demand for UK logistics if companies seek to keep increased stock volumes to mitigate potential impacts of trade disruption on sales. Brexit could also lead to some re-shoring of supply chains and/or restructuring to deliver separate EU and UK focused infrastructure.
- 3.3 Nationally the pandemic has had a smaller impact on speculative industrial development than initially feared, and despite strong delivery of new supply there has been ongoing rental growth which nationally averaged 4.2% for prime industrial units in 2020.
- 3.4 Whilst mid-box units have been the focus of speculative development activity in recent years, larger units (100,000 sq.ft+) saw the largest growth in 2010 and the pipeline nationally is skewed towards this sector. LSH report a more modest pipeline of 2.1m sq.ft of speculative development in the mid box market is anticipated in 2021. LSH describe the East of England as a real hotspot of speculative development with 1.4 million of new space being brought forward speculatively at the end of 2020.
- 3.5 Uttlesford is not however particularly a market for 'big box' logistics space which is more focused towards major motorway corridors such, within the East of England, the M1 corridor through Hertfordshire and Bedfordshire. As we set out later in this report, there is no evidence of big box take-up in the District over the last decade.
- 3.6 In the East of England, LSH report industrial take-up in 2020 which was 30% above the 5 year average at 5.2 million sq.ft. The available supply of units is 2.0 years for the mid-box units, and less than this for larger/ extra-large sizes.

Industrial Stock

- 3.7 Uttlesford accommodated around 20% of the FEMA's industrial stock, with a total of 459,000 sq.m of floorspace recorded by the VOA in 2020. The largest share of stock is seen in Harlow (with a quantity 60% greater than in Uttlesford).
- 3.8 The total industrial stock across the FEMA has declined in net terms over the 2010-20 decade, falling by a modest 4%, compared to a regional and national picture which is flat. However in Uttlesford, the VOA data points to modest growth in stock of 6% over this period. Industrial floorspace includes industrial and warehousing/logistics floorspace.

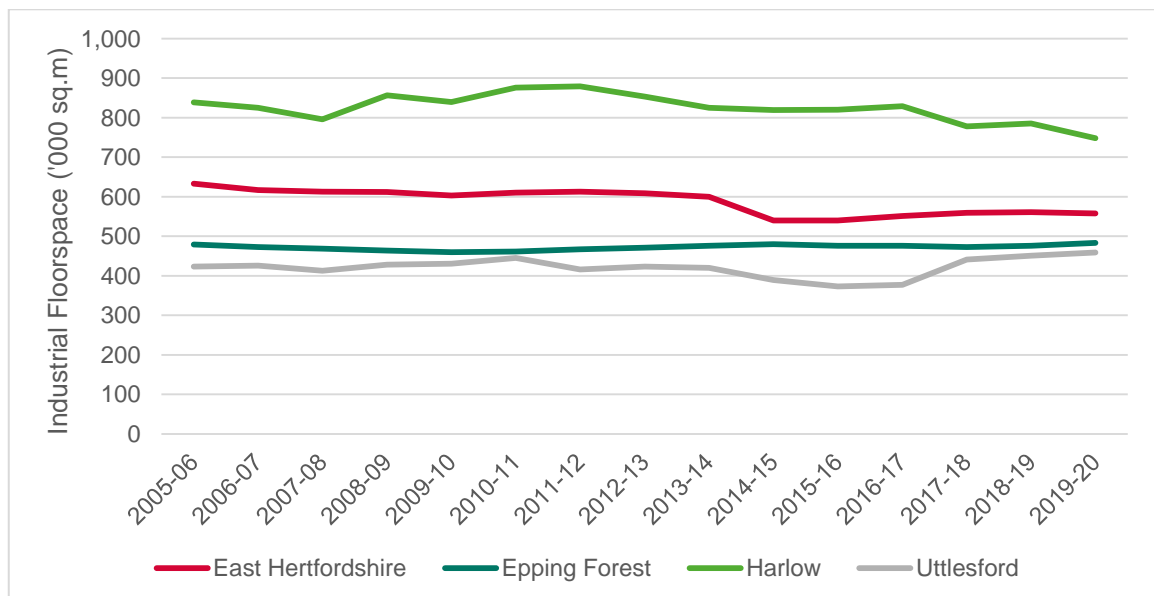
Table 3.1 Industrial Stock in the District and FEMA, 2019-20

	Stock, 2019-20 (sq.m)	% FEMA Stock	Stock Change, 2010-20	% Change, 2010-20
East Hertfordshire	558,000	24.8%	-45,000	-7%
Epping Forest	483,000	21.5%	23,000	5%
Harlow	748,000	33.3%	-92,000	-11%
Uttlesford	459,000	20.4%	28,000	6%
FEMA	2,248,000		-86,000	-4%
East of England	33,820,000		281,000	1%
England	311,632,000		-892,000	0%

Source: VOA Non-Domestic Rating Statistics

- 3.9 The chart below shows the trend in industrial floorspace by area. It shows that industrial floorspace in Uttlesford fell between 2009-16, but has been increasing since (with subsequent growth of 86,000 sq.m, 23%). A general downward trend is evident in East Herts and Harlow.

Figure 3.1: Change in Industrial Floorspace, 2005-20



Source: Icen analysis of VOA Non-Domestic Rating Statistics

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- 3.10 The average size of industrial properties is below wider averages, indicating a focus of industrial stock and demand towards SME businesses. It is notable that the average size of industrial units in Harlow is more than twice that in Uttlesford, with Harlow more likely to cater for larger requirements.

Table 3.2 Average Size of Industrial Properties, 2020

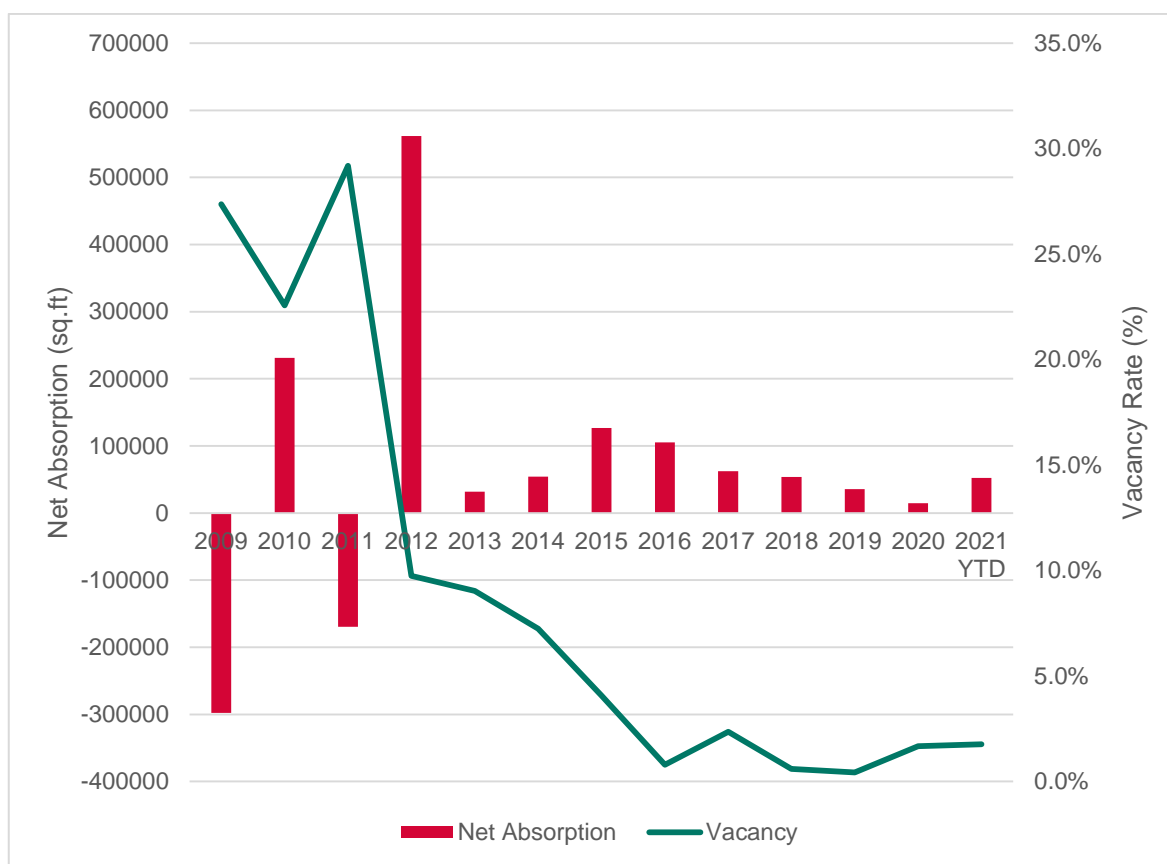
	Floorspace, 2020 (sq.m)	Rateable Properties	Average Floorspace (sq.m)
East Hertfordshire	558,000	1,440	388
Epping Forest	483,000	1,500	322
Harlow	748,000	850	880
Uttlesford	459,000	1,080	425
FEMA	2,248,000	4,870	462
East of England	33,820,000	57,770	585
England	311,632,000	507,060	615

Source: VOA Non-Domestic Rating Statistics

Take-Up and Net Absorption

- 3.11 The District has seen positive net absorption in the majority of years over the 2010-20 decade, meaning that more industrial floorspace was being take-up than coming onto the market (either through existing office space being vacated or new-build development). As the graph below shows, this has resulted in a reduction in the level of vacant floorspace which fell to a low-point of 0.4% in 2019.
- 3.12 Net absorption over the last 6 years has averaged 66,400 sq.ft (6,200 sq.m) per annum of industrial space in the District.

Figure 3.2: Industrial Net Absorption and Vacancy Rate – Uttlesford District



Source: Icen analysis of CoStar data

- 3.13 The current industrial vacancy rate stands at 1.8% in mid 2021 – a very low level. This is still representative of constrained supply and tight property market conditions. As the table below shows, there is a greater level of vacant space within the specialist industrial category (albeit with this the vacancy level is still comparatively low); whilst for both light industrial and logistics space a vacancy rate of 1.5% points to a tight market and need to bring forward further supply.

Table 3.3 Vacancy Rate for Different Types of Industrial Space – Uttlesford District

	Floorspace (sq.ft)	Vacancy Rate	Availability Rate
Logistics	2,384,277	1.5%	2.0%
Specialist Industrial	291,844	4.1%	4.1%
Light Industrial	467,938	1.5%	22.1%
All Industrial	3,144,059	1.8%	5.2%

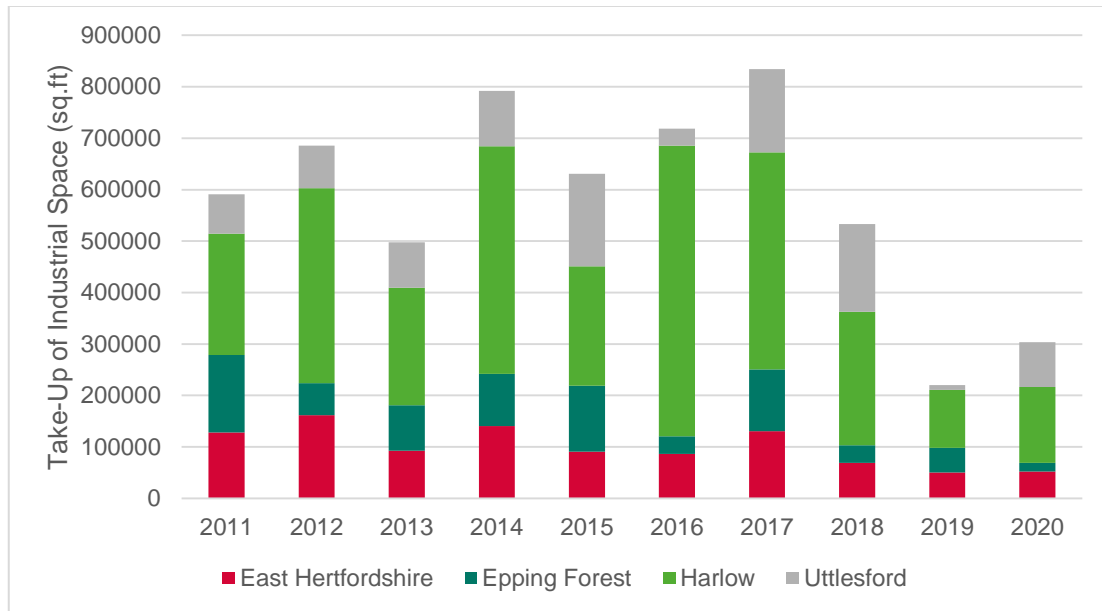
Source: CoStar

Leasing Activity

- 3.14 Across the PMA the average take-up of leased industrial space over the last 10 years has been 54,000 sq.m (580,600 sq.ft). Harlow has dominated industrial take-up, recording 52% of the PMA total. Uttlesford and East Hertfordshire have recorded 17% each, with Epping Forest 14%. Average take-up in Uttlesford has been 28,100 sq.m per annum.

3.15 As Figure 3.3 clearly shows, there has been a notable drop off in take-up over the last 3 years. This is likely to have been in part influenced by a constrained supply position. Take-up over this period has averaged just 33,000 sq.m across the 4 authorities.

Figure 3.3: Industrial Take-Up – Property Market Area

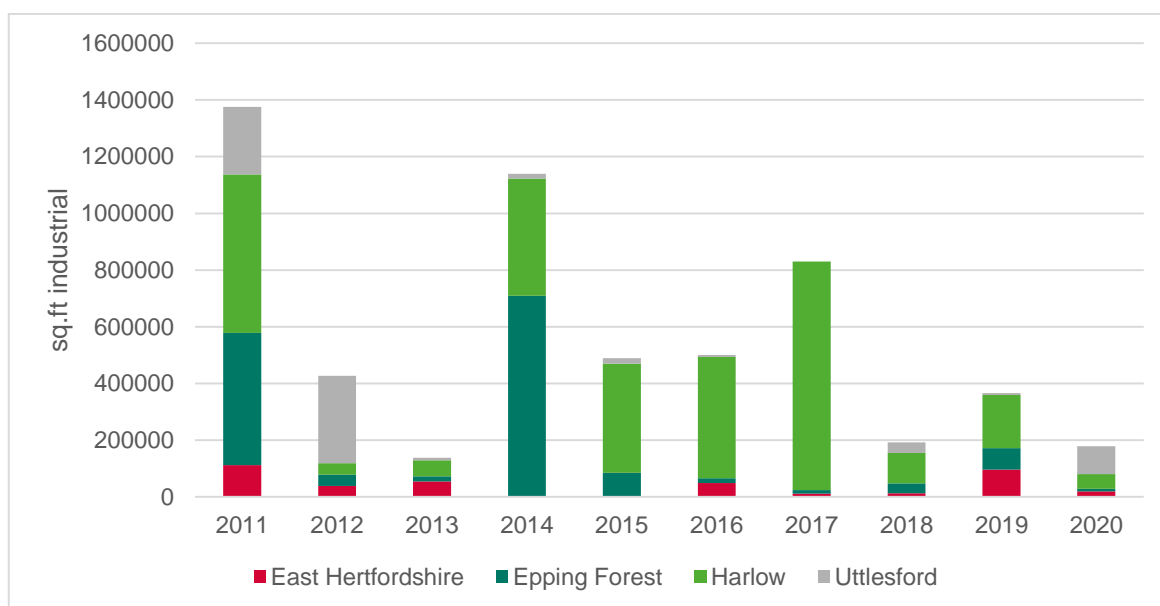


Source: Icen analysis of CoStar data

Freehold Activity

3.16 The level of freehold take-up is influenced by a number of larger deals, which saw much higher take-up across the PMA in 2011, 2014 and 2017. Uttlesford has accounted for a modest 7% of freehold take-up across the PMA since 2011 with 373,000 sq.ft (81,900 sq.m) of space being recorded as transacted, equivalent to an average 7605 sq.m per annum.

Figure 3.4: Industrial Freehold Transactions – PMA, 2011-20



Source: IcenI analysis of CoStar data

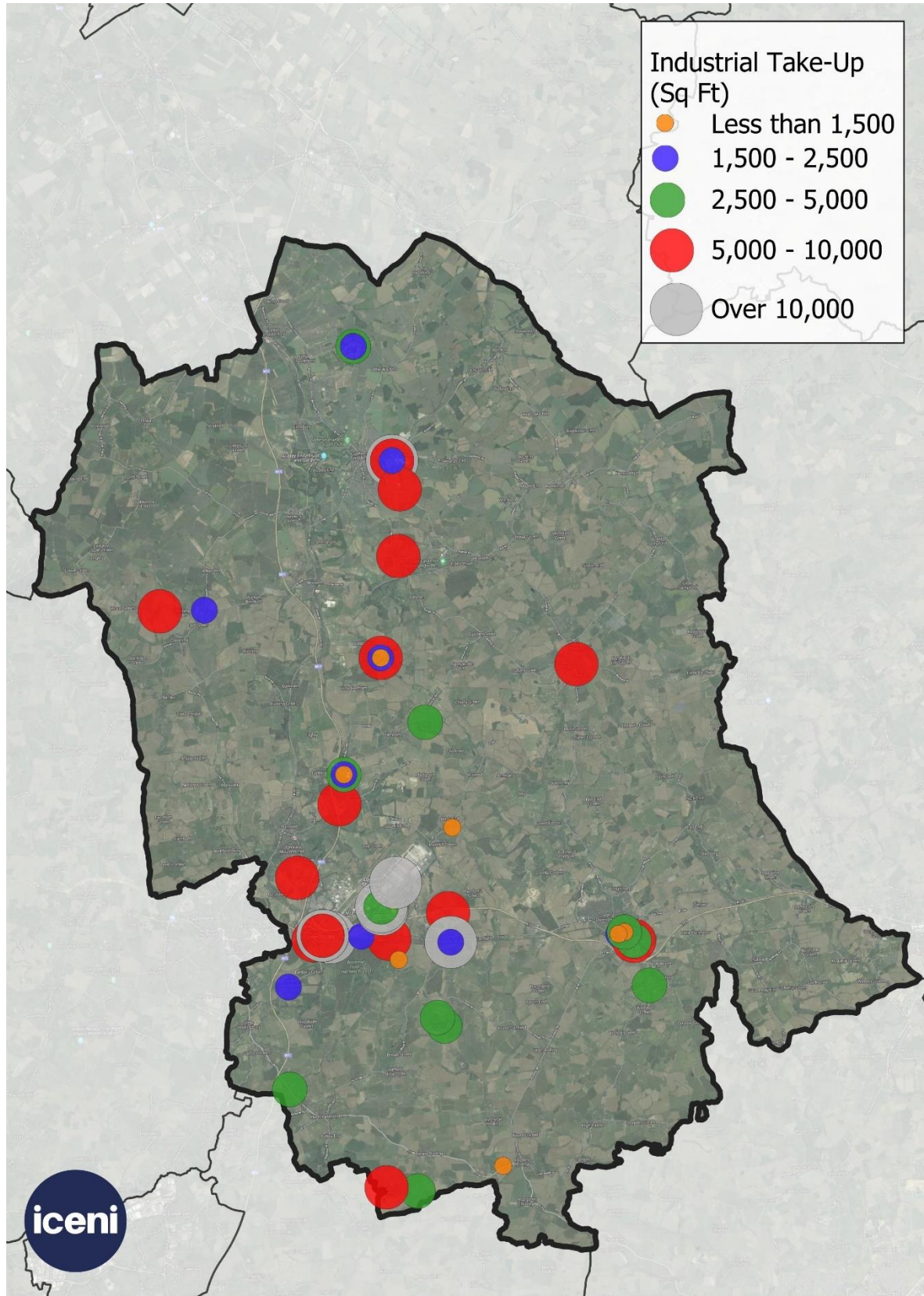
- 3.17 The focus of freehold deals in recent years has been on units of up to 22,000 sq.ft in Uttlesford; with the majority of deals for under 10,000 sq.ft of space.

Agent Feedback

- 3.18 IcenI has spoken to a number of commercially active local agents to understand current market conditions and gaps in supply. Coke Gearing note a lack of industrial supply within the market in Uttlesford and more generally within 10 miles of Bishops Stortford with a 98% occupancy level within the industrial market. This is consistent with the our findings from the CoStar data and our discussions with Mullucks. Demand outstrips supply and there is a need to bring forward new development.
- 3.19 Within a 10 mile radius of the Airport, Coke Gearing report current market requirements for 1.8 million sq.ft of industrial space as at July 2021. There is demand for industrial space in a range of size bands including 30,000 – 40,000 sq.ft units from established manufacturing businesses in the District, together with larger requirements – including for units of 60,000 sq.ft, 70,000 sq.ft and 130,000 sq.ft. They report that they have just done a letting to an Uttlesford occupier of a unit of 140,000 sq.ft in Braintree, who was unable to find suitable premises within the District. Mullucks appear more focused on smaller requirements of units of between 5,000 – 25,000 sq.ft.
- 3.20 Agents report a need to bring forward additional supply, particularly close to M11 Junction 8, which is the area of strongest occupier demand. The Saffron Malden market, in the north of the District, is tilted towards Cambridge and focused more towards R&D and bioscience activities; with industrial demand more limited influenced by the lack of decent access to the motorway.

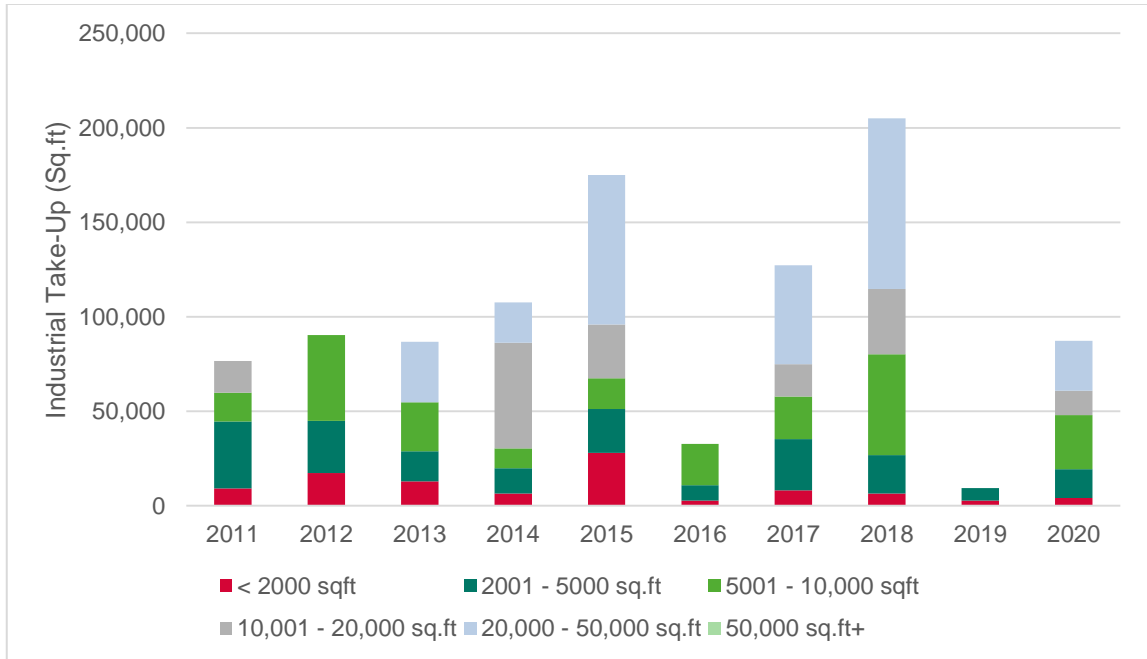
3.21 Figure 3.4 below shows the spatial distribution of industrial leasing activity in the District between 2015-20. The strongest cluster is around Stansted Airport and Takeley.

Table 3.4 Industrial Take-Up in Uttlesford (2015-20)



3.22 It is evident that there has been no take-up in the district of 'mid box' (50,000 – 100,000 sq.ft) or 'big box' industrial units (> 100,000 sq.ft) over the last decade. The largest units leased have been of around 35,000 sq.ft.

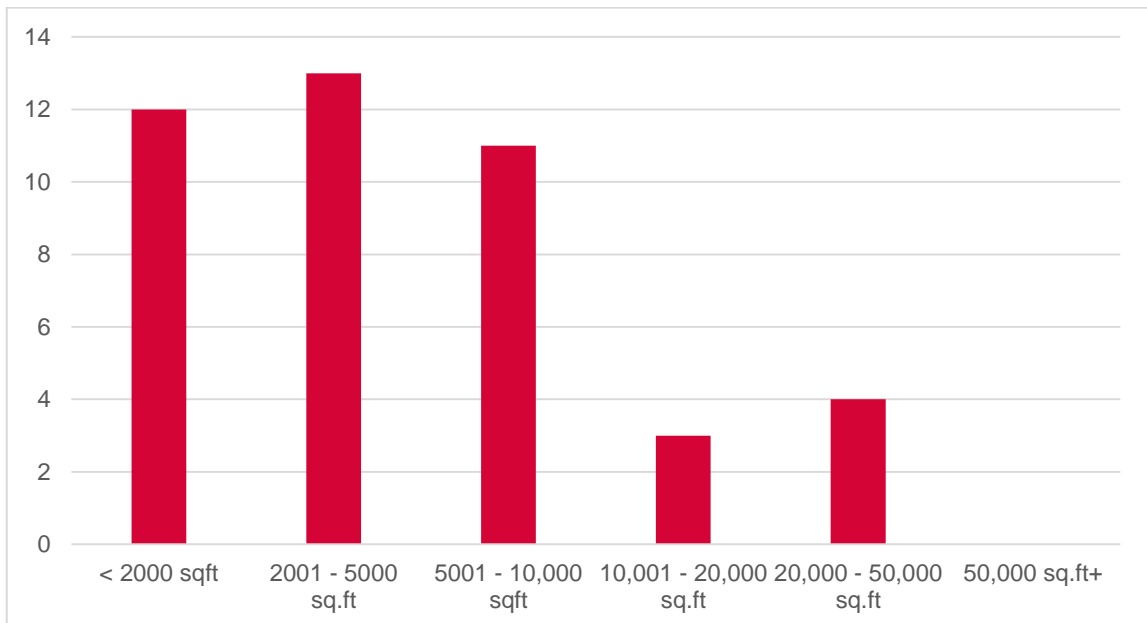
Figure 3.5: Industrial Take-Up by Size Band – Uttlesford District



Source: Icen analysis of CoStar data

3.23 The chart below shows the profile of leasing deals of different sizes. Activity is strongest for smaller units of < 10,000 sq.ft reflecting the focus of the economy on SMEs. However while leases of over 10,000 sq.ft units are rarer, but have driven overall take-up in the District.

Figure 3.6: Industrial Leasing Activity by Size Band – Uttlesford, 2018-20

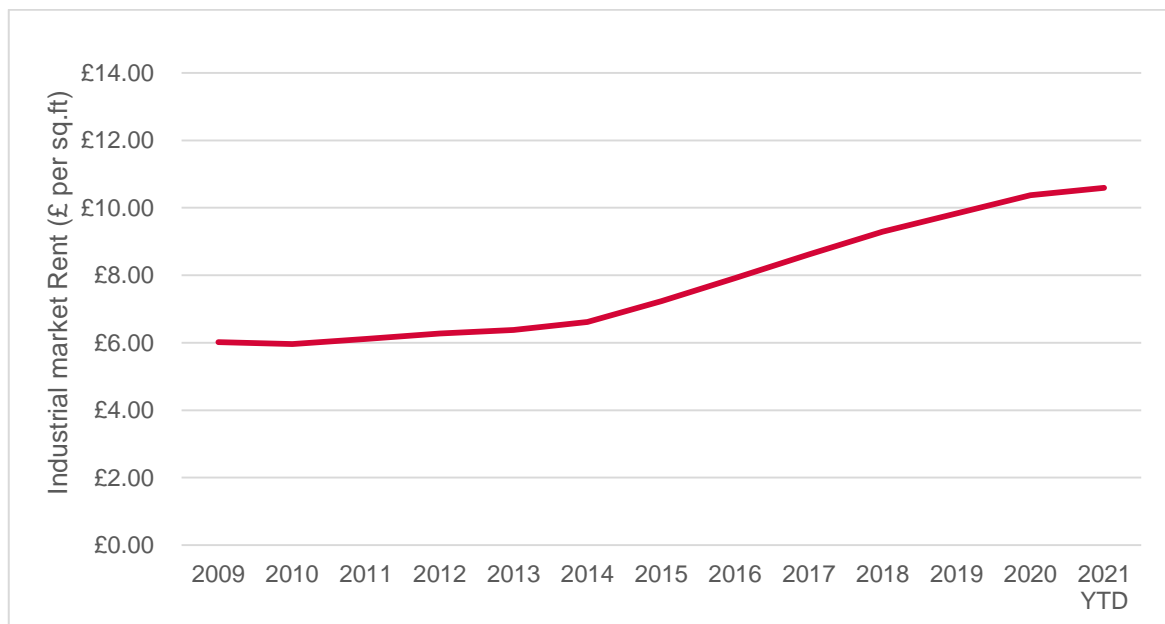


Source: Icen analysis of CoStar data

Industrial Rents

- 3.24 Market rents vary depending on the location and quality of the property, by CoStar record typical market rents of £10.35 psf for logistics space, £12.88 for light industrial and £8.88 psf for specialist industrial stock.
- 3.25 There has been relatively strong growth in industrial rents since 2014 as industrial supply has tightened.

Table 3.5 Industrial Rents – Uttlesford



Source: Icen analysis of CoStar data

- 3.26 Whilst typically you would expect positive rental growth and declining availability to have resulted in new supply coming forwards, CoStar report just 1,500 sq.ft of industrial space underway in the District. The outlook therefore points to further rental growth in the short-term.