

MARKETING REPORT

BRYNGELLI INDUSTRIAL ESTATE

MEADOW LANE

HIRWAUN

CF44 9PT



Jenkins
Best

26th February 2021

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1 Instructions

Jenkins Best are instructed by Andrew Crompton on behalf of Meadow Lane (Hirwaun) Limited to provide a market assessment report for Land at Bryngelli Industrial Estate, Aberdare, RCT.

The report addresses the following areas;

- I. Property market commentary for the area
- II. Overview of demand for employment floorspace in this location

2 The Property

The property comprises a cleared industrial site of approximately 2.5 acres, on the former Ferraris Bakery. The site is mainly level and rectangular in shape.

The previous industrial buildings on the site have been demolished, with largely unmade ground to the south and an area of hard-standing to the north.

3 Location

The subject property sits in close proximity of the main industrial area of Hirwaun Industrial Estate. Hirwaun is located at the northern edge of the South Wales conurbation, which stretches from the Severn Bridges in the east to Swansea Bay in the west and northwards to the A465 Heads of the Valleys Road. Hirwaun is located at the head of the Cynon Valley, 23 miles north-west of Cardiff, 24 miles north-east of Swansea and 20 miles south of Brecon.

The site is accessed off the A4059 via Rhigos Road and Meadow Lane, which is predominantly a residential area. The northern boundary fronts Meadow Lane, while the southern boundary abuts the A465. To the east lie the reconfigured industrial units at Bryngelli industrial estate, with further residential to the west.

4 Employment Land within Rhondda Cynon Taff (RCT)

There is a significant industrial presence along the line of the A465 Heads of the Valleys road and therefore an active industrial property market. There is, however, little office demand in this sub-region outside local government and other public services.

The market for employment property and sites in the Heads of the Valleys has improved over the past decade, however, this is from a low base with Hirwaun rental and capital values being low – far below those levels required for a sustained commercial development of new floorspace.

The £500 million upgrade of the A465 to dual carriageway standard, is to be completed by 2024 and should improve both the resilience and speed of road communications to Hirwaun. In turn, this should improve occupier demand and market sentiment.

A schedule of the main industrial areas within RCT can be found at Appendix A.

The Rhondda Cynon Taff Local Development Plan (LDP) also recognises the following strategic employment sites within the borough;

Location	Site size (hectares)	Type	Comments
Cae Mawr Industrial Estate, Treorchy	3.6	Employment B1/B2	Large flat site in established industrial location. Suitable for small to medium multi-let industrial units
Coed Ely Tonyrefail	14.32	Employment B1/B2	Reclaimed brownfield site of former colliery.
Ferndale & Highfields	8.38	Employment B1/B2/B8	Well located in established industrial area. Likely to be suitable for a range of industrial units
Gellihirion Industrial Estate	1.47	Employment B1/B2	Greenfield site in established industrial/retail park location. Likely to be suitable for multi-let/mid-box industrial units
Mayhew Chicken Factory	2.88	Employment B1/B2/B8	Well located. Good access. Likely to be suitable for larger B8 units

In addition to these strategic sites, there are pockets of 'infill' land within RCT, providing development opportunities for employment floorspace, however these are typically granular in nature. In close proximity to the subject property are the following;

Former Hitachi site - in the 1960s, GEC opened a television factory on Hirwaun Industrial estate and later entered into a joint venture with Hitachi who then assumed overall control of the plant. Extended to over 500,000 sq ft, the plant eventually closed in 2002 and the site was sold to gift-wrap company International Greetings Plc. In 2018, IG sold the main site, totalling 354,000 sq ft on 18 acres to Drax Power Plc, who secured planning consent for a 299Mw gas fired power station on the site. The buildings have now been cleared however the power station has not yet been built as Drax have not yet secured a generating licence. IG remain in occupation of the 100,000 sq ft 'Advance Factory' which formed part of the original Hitachi complex.

Enviroparks - have developed a plant which involves sorting various waste categories and a series of processes including anaerobic digestion, pyrolysis and plasma gasification. The 21-acre site, which includes a new-build 100,000 sq ft unit, is currently mothballed as they are considering their business model and we will know in the next 3-6 months whether they plan to progress with their original plans. A planning application (ref: 20/0986/10) has been submitted for the erection of a 90m high emissions stack associated with the gasification process. A decision is awaited.

Furthermore, there are numerous sites available within RCT, in particular the lower Cynon Valley, that are arguably better positioned to accommodate commercial development. Jenkins Best have been involved with the disposal of a number of such sites on behalf of the Welsh Government, as set out below;

Aberaman Park Industrial Estate, Aberaman – A site of c. 1.3 acres has recently been sold to an owner occupier already located on the estate for expansion. An owner occupier's decisions are often driven by the suitability of the site for their business purposes rather than returns required for speculative development by

an investor. Another c. 10 acre site is currently under offer to an occupier relocating from Hirwaun Industrial Estate which further reinforces the fact that occupiers view the lower valleys more favourably.

Cwm Cynon Industrial Estate, Mountain Ash – currently marketing a site of c 2.7 acres with limited interest to date. The site was under offer to an owner occupier who withdrew due to the current Covid situation / uncertainty. Cwm Cynon Industrial Estate is in our opinion better located for commercial development given its situation in the lower valley with better connectivity to the M4 via the A470. There is also a pool of skilled labour with University of South Wales campuses in close proximity. The lack of interest further supports our opinion that there is limited demand, in particular from investors, for speculative commercial development within the Cynon Valley.

Another notable site on Cwm Cynon Industrial Estate, is a 3.5 acre site with roadside prominence to the A4059 which is being marketed by Knight Frank and has been on the market for some time.

Recent transactions - in 2019 Merthyr company Loadlok acquired a 35,000 sq ft unit on Hirwaun Industrial estate for £1.0 million (£28.57 per sq ft capital value). In the summer 2020 Units 4/5 (19,868 sq ft) were sold by Knight Frank after Brecon Foods went into administration for £300,000 (£15.10 per sq ft capital value).

5 Industrial Market Overview

This section provides an overview of the property market for employment property in Hirwaun and Rhondda Cynon Taf. Supply and demand statistics for 2020 are limited, or non-existent, with national property agents choosing to give this year a miss due to the extraordinary circumstances. Evidence is therefore thin, and this report is based upon 2019 data with some limited pointers thereafter.

Firstly, there is only limited office demand in Hirwaun and the wider Heads of the Valleys. The employment property market is therefore dominated by the industrial sector. The Tower Business Centre offers smaller office suites on Hirwaun Industrial estate whilst Walters and Rapidgrip have developed large corporate headquarters there.

The Heads of the Valleys area has seen increased industrial activity with the following key large unit transactions;

(Selected large industrial transactions in the Heads of the Valleys (50,000+ sq ft) illustrating low capital values)

Date	Address	Size sq ft	Tenure	Occupier/Purchaser
2013	Highbay, Dowlais, Merthyr Tydfil	165,000	L/H	Let to Tenneco Walker Automotive for 10-year term (£2.50 psf rental)
Q1/2015	Unit 19, Rassau Industrial Estate	60,000	F/H	Poor repair, significant roof leaks. Sold to Envirowales for £450k (£7.50 capital value)
Q1/2015	Yamada, Festival Park, Ebbw Vale	53,400	F/H	Acquired by Cwmtillery Glass for £950k. (£17.79 psf capital value)

Q4/2015	Linde Ind. Park, Merthyr Tydfil	236,000	F/H	General Dynamics acquired for £5.2m (£22.05 psf capital value)
Q2/2016	Ashvale Industrial Est, Tredegar	26,729 5 acres	F/H	Acquired by Rooms with Views Ltd for £400k. (£14.96 psf capital value)
Q2/2016	Maerdy Ind Est, Rhymney	112,000	F/H	Sold to Ecotech for £1.4m (£12.50 psf capital value).
Q1/2018	Budelpack, HoV Ind Est, Rhymney	107,000 10 acres	F/H	Acquired by Sharp Clinical for £1.95m (£18.22 psf capital value)
Q3/2018	Former Design Aberbargoed Gift	130,000	F/H	Acquired by Wild Water Logistics for £1.35m (£9.62 psf capital value)

6 Demand Analysis – Light Industrial and Trade Counter

There are no definitive demand statistics for 2020 as property agents have not produced these reports. However, speaking to agents at Knight Frank, Cooke & Arkwright, Cushman & Wakefield, JLL and Brinsons indicates the following;

- I. The majority of enquiries received for Hirwaun are from local / regional businesses seeking functional employment floorspace for manufacturing, trade counter or local distribution / administration base.
- II. High value-added sectors of the economy are not well represented in the mid and upper Valleys. It could be argued that this situation would be self-perpetuating if there is no supply of floorspace such as B1 hybrid units or hybrid office/industrial units for such uses. However, we remain of the view that it would not be an appropriate form of development at this location due to lack of skilled labour or proximity to universities.

Our view on supply, demand and rental levels are as follows:

Unit size	Supply of second-hand floorspace	Demand	Second-hand rental levels per sq ft	New build rental levels per sq ft	Remarks
1,000 sq ft	No supply	Strong	£5.50	£6.50	Strong demand for starter units
2,000 sq ft	Limited supply	Strong	£4.25	£5.00	Strong demand for starter units
5,000 sq ft	Limited supply	Medium	£4.00	£4.50	Weaker size band although some demand for 'follow-on' space
10,000 sq ft	Limited supply	Medium	£3.00	£4.25	

25,000 sq ft	Limited supply	Medium	£3.00	£4.00	Opportunity for large plot with expansion potential
50,000 sq ft	Limited supply	Low	£3.00	£4.00	Not recommended,

There is little or no floorspace currently on the market in the immediate vicinity, although this has not been the case historically with often a significant quantum of floorspace available. The areas of greatest demand are in the smaller 'starter' units and mid-sized 10,000-25,000 sq ft.

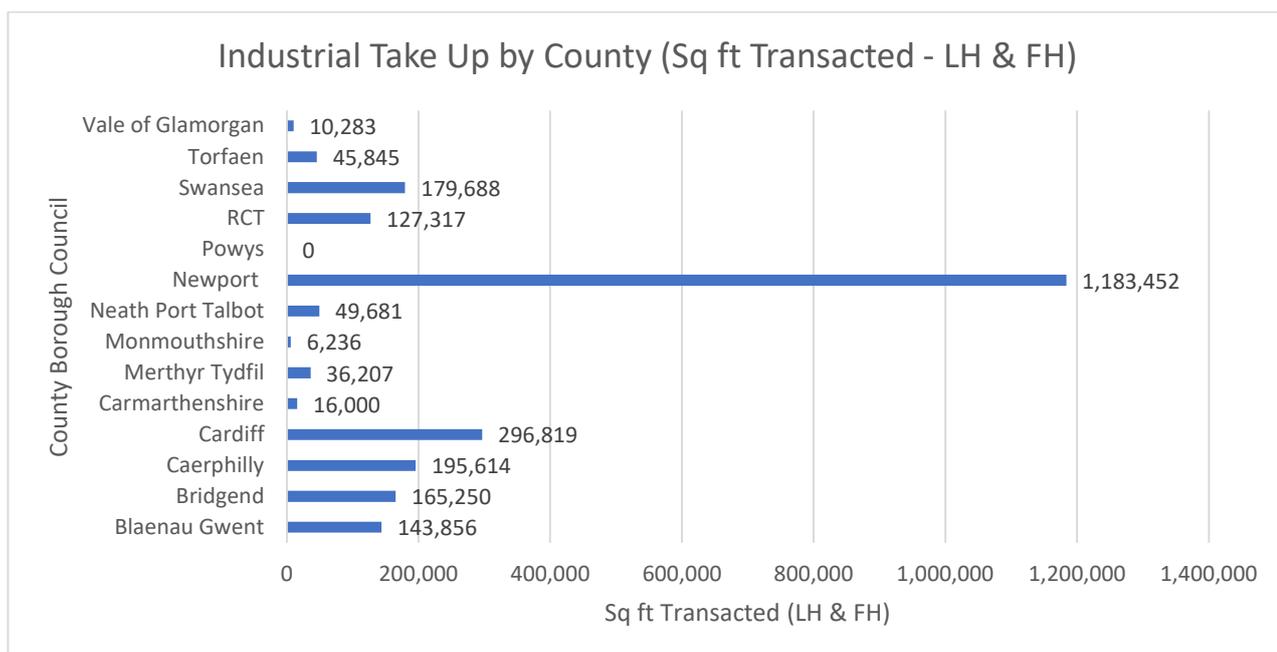
The Heads of the Valleys is recognised as a large industrial cluster, however, remains a disadvantaged part of South Wales and is characterised by low capital values and rents. The investment being made in dualling the A465 Heads of the Valleys trunk road has and will further improve market perception.

The Heads of the Valleys has a critical mass of traditional industries including engineering, packaging, processing and food. There are few enquiries from high value-added sectors of the economy for the upper Valleys. This is in part due to their instinct to cluster in urban areas with access to the university sector – however there is a counter argument that there is no property provision for them in the upper Valleys.

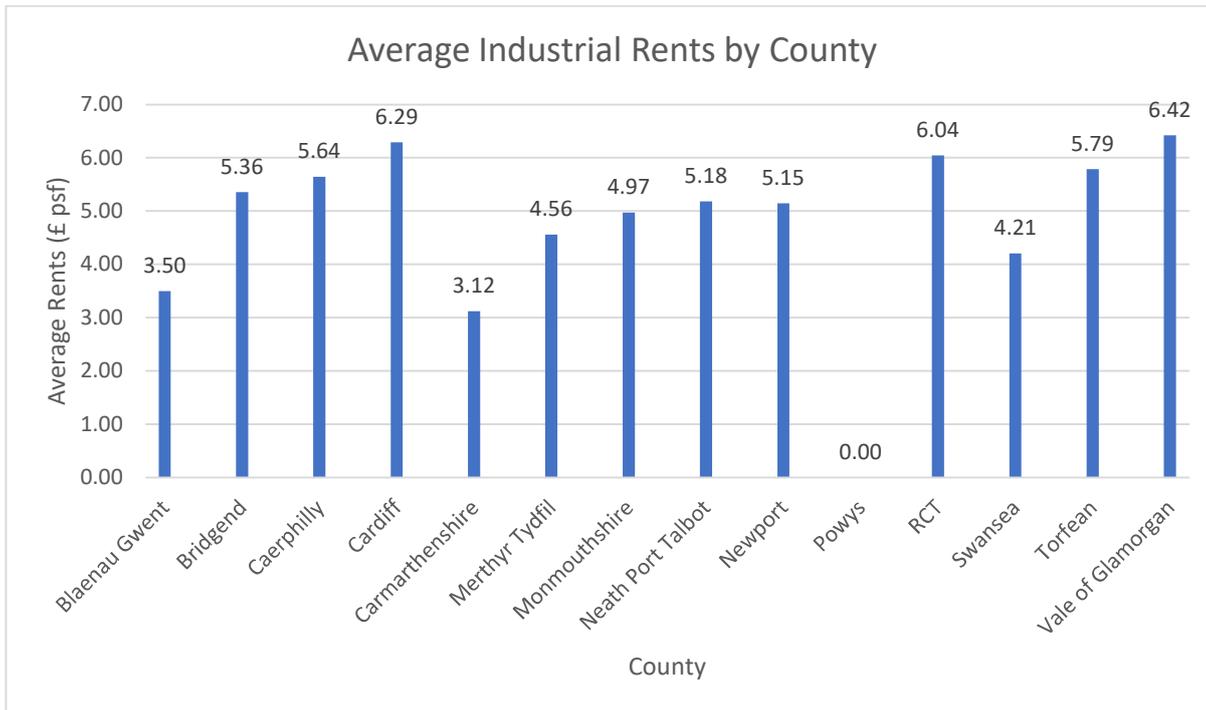
The Heads of the Valleys sub-region has not attracted any significant distribution enquiries in recent years, with logistics activity focussed upon the M4 corridor in south-east Wales.

7 Take-up

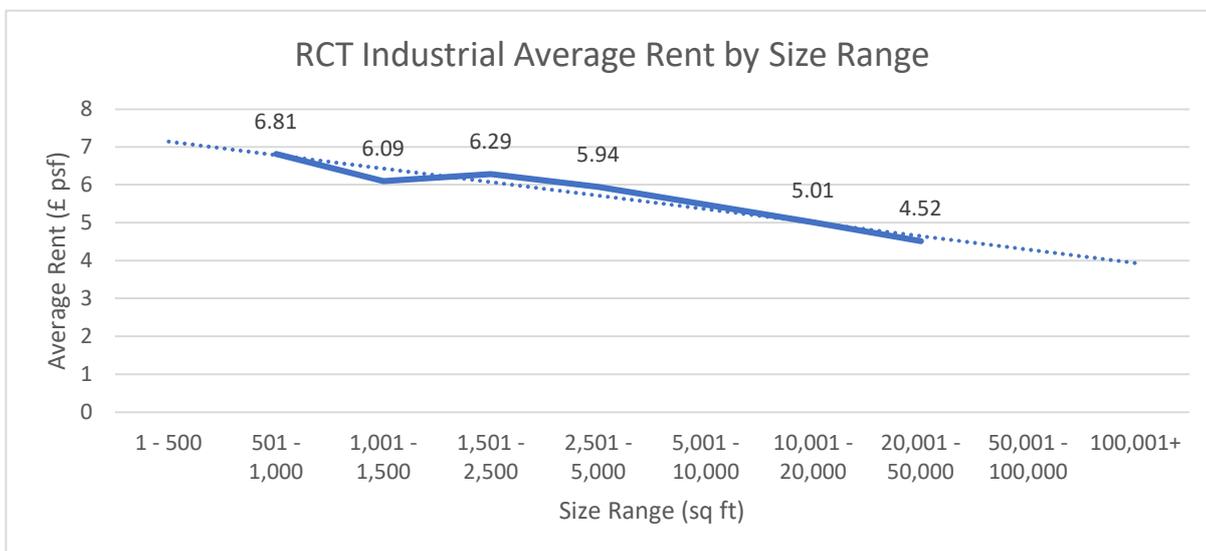
The Industrial Agents Society (IAS) take up statistics for South Wales during 2020 are attached at Appendix B. Note that these figures exclude any properties <1,000 sq ft.



*Note the Newport take up sq ft includes the freehold sale of The Orb Works 762,485 sq ft



*Note that the average rent per sq ft for RCT is amplified by some of the prime estates in the south of the county such as Treforest, Nantgarw, Taffs Well and Gellihirion.



8 Potential Employment Uses

In our view, Bryngelli is not a suitable location for office development or B1 hybrid floorspace - property types most associated with semi-conductors, fintech, cyber and AI sectors. There would be wider concerns over the availability of skills for these uses, links to universities and distance from existing clusters which have already emerged along the M4 corridor in locations such as Imperial Park, Newport and Pencoed, Bridgend.

The Creative Sector is also well established along the M4 corridor with clusters in Cardiff and Bridgend – it is unlikely that they would be attracted to Hirwaun although the Royal Opera has a base in nearby Aberaman. Life Sciences has a limited presence along the A465 (Penn Pharmaceuticals/PCI in Tafarnaubach & Sharp Clinical in Rhymney) however stronger cluster are on the M4.

There is more likely to be demand from local and regional businesses, particularly at the smaller end of the industrial market.

Industrial

SQW provided a report to Welsh Government in March 2020 titled ‘**Commercial Property: Market Analysis and Potential Interventions**’. This report stated that there is evidence of widespread ‘market failure’, particularly in the industrial sector. The report noted that occupancy levels for industrial floorspace are high, agents report strong demand and there are businesses seeking to expand that are unable to do so. SQW prepared a series of ‘baseline appraisals’ for office, industrial and hybrid units which demonstrated non-viability in most locations.

SQW’s report stated that, in Cardiff Capital Region, the evidence is that supply is tight relative to demand. Rental levels are low and there has been little commercial development (outside the cities of Newport and Cardiff). The supply/demand imbalance is compounded by ageing stock, but private sector delivery is unviable across most of the region.

Whilst the lack of supply of good quality small and medium industrial units would suggest a suitable use for the subject property, the challenges faced by delivering viable development are driven by historically low rents and low capital values versus high build costs.

For example, the development of new industrial units would realistically cost c.£85+ per sq ft to build. Private sector development would typically require rents in the region of at least £8.50 psf+ to drive a high enough return to justify the capital expenditure and associated risks to build these units.

Recent evidence on the nearby estates suggests the rental tone is still too low to justify speculative development as demonstrated by the following recent lettings;

Estate	Unit	Sq Ft	Headline Rent p/a	£psf	Date
Hirwaun Industrial Estate	42	10,215	£35,753	£3.50	Mar-20
Hirwaun Industrial Estate	8 & 9	5,983	£26,924	£4.50	Jan-21
Hirwaun Industrial Estate	13	4,484	£15,694	£3.50	Nov-20
Hirwaun Industrial Estate	21	1,472	£6,992	£4.75	Dec-20
Hirwaun Industrial Estate	33	680	£3,400	£5.00	Jan-21
Gasworks Industrial Estate	2	1,181	£5,315	£4.50	Apr-20

The only significant private sector development underway in South Wales, is in limited locations, where rental levels are high enough to justify development. These include St Modwen’s scheme to develop two units of 100,000 sq ft and 30,000 sq ft at St Modwen Business Park, Llanwern and Aberbeeg developer Formaction’s terraced units in Cardiff, Newport, Ystrad Mynach and Pontyclun.

As well as the development viability barriers, the site is also constrained in the following areas;

- I. Access – the primary entrance to the site is via Meadow Lane and Bryngelli Close, which are two small residential roads. Meadow lane is particularly restricted with a pinch point between the residential dwellings on the northern side of Meadow Lane and the industrial units at Bryngelli industrial estate to the south. This restricted access is likely to be prohibitive for larger commercial vehicles and deter potential commercial occupiers from the location.

- II. Proximity to housing – the site sits within an established residential area. Nuisance associated with industrial processes such as noise and smells could potentially cause issues with the local residents.
- III. Alternative sites – There is evidently a number of alternative employment locations across Rhondda Cynon Taff, more suitable for commercial floor space development. The strategic sites identified in the Local Development Plan (LDP) offer both green and brownfield sites in better located, established industrial areas.
- IV. Limited road frontage – the site is tucked away in a residential area and therefore difficult to find.

Open Storage

The site could be considered for open storage. Rent for a site of this type, would typically achieve an annual rent of c.£15,000 per acre. The site would need to be fenced, gated and benefit from services. However, due to the type of user open storage is likely to attract, such as large vehicle storage or recycling, the access through the residential areas is likely to deter potential occupiers.

Office

As outlined above, the demand for office use / properties in this area is virtually non-existent from either the private or public sector and as a Professional Practice we have not received any tangible enquiries from potential occupiers seeking accommodation in this locality in recent years.

We do not therefore, consider the subject property has any demand requirements for current potential office use and due to the economic factors relating to the speculative commercial development market, we do not consider this site offers any viable opportunities to delivering office accommodation.

9 Conclusion

We are of the opinion that the prospects for re-developing the subject property for employment purposes are very limited. A lack of supply in the industrial sector could suggest that a small unit industrial scheme could be viable for the subject property, however the key barriers to entering this market ie. low rents/capital values versus the high construction costs make speculative development economically unviable to all employment sectors. Furthermore, the current access constraints and close proximity to existing residential dwellings are likely to inhibit attracting potential occupiers.

We have therefore reached the conclusion that the main reasons for this site remaining redundant for the past 3 years is primarily due to there being no realisable demand from potential occupiers or ambition within the commercial sector to develop this land for industrial / employment use.

As such, we cannot see any reason why this site should be retained for employment use when there is an identified need / demand for potential residential development from a developer who is working in conjunction with a local RSL to deliver circa 35 new dwellings on the site.