MARKET OUTLOOK

FOR

STRATEGIC REGIONAL SITES

Final Report

Prepared by

Lambert Smith Hampton
Property Solutions

ekogen

On Behalf of

Northwest
REGIONAL DEVELOPMENT AGENCY

Contents

1 Introduction

1.1 Lambert Smith Hampton & ekosgen have been appointed to undertake a review into the market outlook for the Strategic Regional Sites in the North West.

1.2 The study is required to provide guidance on how the market context has changed since the 36 strategic regional sites were selected. The aim of the study is to establish whether there is a need to designate any further strategic regional sites to meet either a particular locational or sector requirement.

Study Objectives

1.3 The brief set a number of questions that have been addressed by the study, these were:

- What is the strategic economic context post credit crunch and the implications and outlook for sectors in the region?
- In particular, make a judgement on the outlook for financial and business services and for key manufacturing sectors in the region in terms of their property and land requirements over the next decade. Has the outlook for manufacturing land requirements become more positive? Has the outlook for professional services property requirements deteriorated?
- What is the outlook for out of town employment sites, including offices, at less sustainable locations (e.g. poorly served by public transport) compared with city centres and town centres?
- How is the inward investment market moving in terms of site and property requirements? Are there any particular requirements such as process industries or the expansion or relocation of traditional industries e.g. food?
- In addition, does the development of the transport and logistics sector (including the region's international port and airports) have any special requirements?
- Having considered the above, what are the possible implications of the research for the portfolio of sites?

Strategic Regional Site Aims and Objectives

1.4 The region's Strategic Regional Sites are those employment sites which are critical to the delivery of the Regional Economic Strategy. The tactical aims of strategic regional sites remain as approved by the Northwest Regional Development Agency (NWDA) Board in December 2001. They are intended to:

- secure the effective implementation of the regional economic strategy;

- have priority, where necessary, for implementation in terms of all Agency resources and in Agency support in bids for other resources;
- be supported by the Agency through the planning system including, where appropriate, development plans, local transport plans, compulsory purchase orders, planning applications and public inquiries in the Agency's role as a Statutory Consultee and Specific Consultation Body.

1.5 A draft purpose has been developed for each strategic regional sites from the objectives set out in the Agency's Strategic Regional Sites Evidence Base report, approved by the Board on 11th March 2005, namely:

- providing a portfolio of attractive opportunities for future inward investment across the region;
- encouraging the development of knowledge based industry within areas of regeneration need;
- building on the region's existing clusters of knowledge based activity, especially close to universities and other research and knowledge clusters;
- providing inter modal freight facilities and terminals to encourage sustainable freight distribution; and
- supporting economic growth and economic restructuring across the region.

1.6 Based on the aims and objectives set out above we have reviewed the individual sites to establish whether there are any gaps in the portfolio of sites. We have also assessed the impact that the changing economic landscape has had on the existing portfolio and its ability to meet the aims and objectives of strategic regional sites.

1.7 This has been undertaken by reviewing the key sectors and establishing the future demand. The sectors that have been reviewed are:

- Service Sector
- Manufacturing
- Logistics
- Inward Investment
- Energy & Environmental

1.8 We have then provided an overview of the property market across the North West. This includes an assessment of the key geographical market areas across the region and identifying the areas that will experience growth and those that will struggle to attract investment.

1.9 The property market plays a critical role in the delivery of strategic regional sites alongside the actions of planning authorities and other agencies. In general, the delivery of strategic regional sites in the North West almost always requires interventions by both the public and private sectors. Many have had a strong public sector involvement including significant university involvement or initiatives by local authorities. In some cases, a private developer has been brought into the partnership at a later stage as viability is established.

1.10 In recent years, employment developments have been more marginal in terms of viability than other uses such as housing, retail and leisure; except in the strongest market areas. Many employment sites are developed over a long period and given the requirement for upfront infrastructure, servicing and landscaping, there is a strong commercial imperative for early development.

1.11 Assessment of the property market has been problematic since 2008, because of the effects of the credit crunch and the subsequent recession. However, there are a number of generalisations which can set a broad framework for the viability and development of sites:

- Values are determined by rental levels and expectations of rental growth over the long term. This is reflected in the concept of yield. A low yield suggests long term confidence in rental growth. The ideal is high rental levels and low yields
- The decision to invest in property as opposed to other investments depends on differences in yields
- Development is very sensitive to values, as development is often marginal
- Accessibility is a major positive driver of value
- High market values drive further development if land is available. Low values typically means a lack of stock, as no speculative development is undertaken
- Speculative development is the ideal in terms of maintaining a supply of premises
- The areas of the North West close to the M62 and M56 corridors, particularly areas close to the regional centre, tend to achieve the highest market values
- Town and city centres are sensitive environments, associated with longer time frames and complex developments. Business Parks, with consented and serviced land are an effective supply option in weaker markets
- Standard space provision is preferred by developers. Complex occupancy conditions or specialist end users tend to weaken viability and increase perceived value risks

1.12 The property market is cyclical and current conditions are seeing a slow recovery after two years of sharp decline. It is expected that these conditions will continue to improve. A healthy development market requires both occupier demand and land and property values that make development inherently viable in the sense that the value of a new building will exceed its cost by a sufficient margin to justify investment. It is therefore important to ensure that the designation of strategic regional sites to meet employment needs are underpinned by views on:

- What is viable now?
- What might become possible in the future as the cycle swings upward again
- What is the most appropriate trade off between the various aspirations at different points in time?

Identification of Key Sectors

1.13 For the purposes of this exercise, an understanding of regionally important sectors is required to identify those with significant growth potential and wider importance. These will be likely to create a demand for strategic regional sites. Additionally, an appreciation of the geographical concentration of these activities will help to understand links to sites and identify pressures on land.

1.14 To achieve this analysis, it is necessary to consider sectors with potential for growth and to assess them in terms of:

- Existing assets for growth and geographic focus;
- Likely future trends; and
- Implications for growth

1.15 Sectors with great economic potential for growth are those which build on existing local assets – exploiting strengths of highly specialised local firms and labour supplies, which are supported by specific infrastructure (including specialised public research organisations) and related inward investment.

1.16 We have drawn together the conclusions of the economic overview and property market analysis to establish the implications for the strategic regional sites and whether there is a need for any further designations.

2 Economic Overview

Introduction

2.1 Global economies have experienced a severe recession in the wake of the global credit crunch. The UK and North West Economies have been no exception to this. Following a significant period of decline, the long awaited recovery in the UK economy began in the final quarter of 2009, with the revised GDP figure showing growth of 0.3% on the previous quarter. Overall GDP fell by 4.8% in 2009, bringing the overall decline in the UK economy since the start of the recession to -6.0%.

2.2 Economic recovery is expected to gain momentum during 2010/11 as both manufacturing and the service sector output continue to strengthen. Consensus forecasts expect GDP growth of 1.4% in 2010, followed by a return to trend growth in the economy of 2.2% in 2011.

2.3 All sectors in the North West and UK have lost jobs over the past 18 months and short term growth is predicted to remain below historic trends.

2.4 This section of the report provides a review of the different market sectors outlined in the study brief. These are:

- Service Sector
- Manufacturing
- Logistics
- Energy & Environmental
- Inward Investment

2.5 It identifies the strategic plans and objectives by sector, their contribution to the regional economy, the impact of the recession and the projected future growth.

The Policy Context

2.6 The Government's recent Manufacturing Strategy[1] and Creative Industries Strategy[2] have both shown the potential of a closer sectoral focus in unlocking potential in specific sectors. The list below includes existing work and areas where work will now be undertaken.

[1] 22 BERR and DIUS (2008) Manufacturing: New Challenges, New Opportunities, http://www.berr.gov.uk/files/file47660.pdf

- Low Carbon Industrial Strategy
- Ultra low carbon vehicles
- Digital Britain
- Life sciences and pharmaceuticals
- Advanced manufacturing

2.7 There are a range of new industrial technologies in manufacturing in which strong UK capabilities should also be a priority for Government attention and support where appropriate.

- In **aerospace**, engine and wing design and manufacture will have to adapt to the low carbon age – and the UK should aim to retain its existing strengths.
- The shift from metal to **composite** materials will provide vast commercial opportunities and will have important applications in the automotive, marine, aerospace, wind and wave, construction, oil and gas, and medical equipment sectors.
- In the **industrial biotechnology sector** the shift from a chemical industry based on oil to one based on renewable and biological substances will redefine chemical manufacture in the 21st century.
- Developing **plastic electronics** technology will enable electronic circuits to be printed cheaply onto flexible surfaces, something impossible with conventional silicon semiconductors and with a massive range of potential applications.

2.8 **Professional and financial services** in the UK represent a core strength, and the country has a strong international reputation in these areas. Future strategies will be put in place to ensure that London and the UK's position as a key global financial centre remains secure in the future.

2.9 The six key priority sectors identified in the Regional Economic Strategy 2006 (Transformational Action 8) are:

- Advanced engineering and materials (AEM)
- Business and professional services (BPS)
- Digital and creative industries (DCI)
- Biomedical including biotechnology, pharmaceuticals and medical devices (BIO)
- Energy and environment technologies
- Food and drink.

[2] 23 DCMS (2008) Creative Britain – New Talents for the New Economy, http://www.culture.gov.uk/reference_library/publications/3572.aspx

2.10 When finalised, the emerging Regional Strategy (RS2010) will replace the Regional Economic Strategy and the Regional Spatial Strategy. The consultation draft Part 1 of the Regional Strategy for England's North West[3] has highlighted the following as key target sectors

- Advanced Manufacturing & Engineering (inc Aerospace, Automotive and Chemicals)
- Biomedical (inc pharmaceuticals)
- Digital and Creative
- Energy & Environmental Technologies including Nuclear

The Service Sector

2.11 The broadest definition of the service sector encompasses all industries except those in the goods-producing sector - agriculture, mining, construction and manufacturing. Within the service sector, the business and financial services sector is highly developed in the UK and one which has grown from the global trend to outsource non core functions of business. The UK is both the leading global financial services centre and the single most internationally focused financial marketplace in the world.

2.12 The North West has one of the largest financial and professional services sectors outside London. The sector has grown considerably in recent years, with employment increasing by over 26%, the number of businesses rising by 36% and GVA growing by almost 50% between 2000 and 2006[4]. Despite the negative short-term impact of the economic downturn, the sector is predicted to grow further in the medium to long term.

2.13 The financial and business services sector comprises a range of different industries. It includes:

- banking
- fund management
- insurance and reinsurance
- business consultancy services
- management consultancy services
- asset backed finance (leasing & hire purchase)
- development and selling of real estate

[3] http://www.nwregionalstrategy.com/Part1
[4] Source: NWDA, Financial and Professional Services Strategy and Action Plan for England's North West (2010)

- legal services
- high value and specialised labour recruitment & provision of personnel
- market research and public opinion polling
- public relations and advertising
- service activities (business process outsourcing, contact centres, shared service centres)
- education and training

Strategic Plans

2.14 Financial and professional services are included in the Regional Economic Strategy 2006 (RES) as a priority sector for the North West. The RES promotes cluster programmes in priority sectors to develop higher value activity, improve productivity and identify future growth opportunities form converging markets / technologies.

2.15 The NWDA published the Financial and Professional Services Strategy and Action Plan for England’s North West in March 2010. The Strategy provides a framework for action to support the sector’s growth over the next ten years and includes a three-year action plan.

2.16 The vision for the sector is:

2.17 “An internationally recognised, competitive and vibrant sector comprised of innovative, market-focused businesses, underpinned by talent and expertise. Manchester will be a leading European centre complimenting London’s position as a global hub, and it will be supported by Liverpool and Chester, as thriving FPS centres in their own right.”

2.18 Realising the vision will necessitate focussing activity and resources on achieving:

- the strategic impact of this strategy which is to increase the total GVA generated by the FPS sector;
- and the strategic aims which are to increase the GVA per head of the sector and increase the number of people working in the sector.

2.19 Actions are proposed under a number of strategic themes:

- raise the profile of the North West FPS sector regionally, nationally and internationally;
- encourage further investment from overseas markets and existing investors in the North West;
- attract investment into the North West FPS sector from the rest of the UK;

- expand the supply of qualified professional and technical staff to meet the current and future needs of the sector;
- increase the level of innovation and enterprise taking place in the FPS sector in the region;
- increase the North West businesses' market share of regional, national and international FPS business;
- provide businesses in the sector with access to the right business support; and
- ensure that the sector has the right infrastructure to support its growth.

2.20 The Strategy identifies five priority sub sectors within the financial and professional services sector[5]. These are:

- Accountancy
- Banking/finance
- Insurance
- Management consultancy
- Legal Services

Contribution to the Regional Economy

2.21 The North West has one of the largest financial and professional service sectors outside London. The sector now accounts for a substantial share of the North West's economy: in 2006 it generated £14.05 billion towards regional GVA – approximately 12.9% of regional total – with GVA per head for the sector of £48,652. The sector employed approximately 288,800 people (9.6% of jobs in the region) in a total of 29,075 companies[6].

2.22 The sector has seen significant growth in the past decade. Between 2000 and 2006 the number of business units grew by 36.3%, the number of employees by 26% and total GVA by 54%. However, whilst the sector has witnessed significant growth in total GVA and GVA per head, this growth continues at a slower pace than the UK average.

[5] A study by Kitshoff Gleaves into the business and professional services sector in 2006 identified these five sub-sectors within the financial and professional services sector.
[6] Source: NWDA, Financial And Professional Services Strategy (2010)

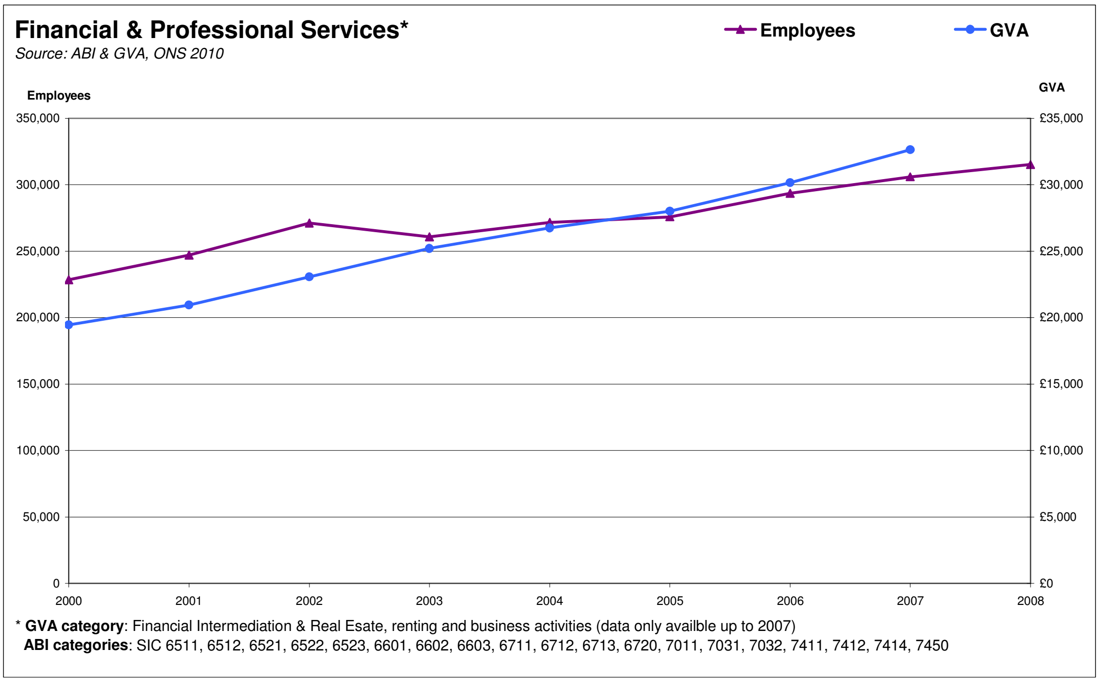


Figure 1. Financial and professional services sector growth by employment numbers and GVA (£millions).

Impact of the Recession

2.23 Most sectors have seen significant jobs losses in the North West and the business and financial services sector is no exception. Cambridge Econometrics projections[7] identify that the impact of the recession to date on the sector has been the loss of approximately 6.2% of jobs from the 2007 peak, with a further loss of 0.4% forecast for 2010.

2.24 The Cambridge Econometrics forecasts show GVA growth slowing in 2008 (2.26%), falling in 2009 (-3.44%) and forecast a return to growth in 2010 (0.18%).

Projected Future Growth

2.25 Cambridge Econometrics forecast that the sector will return to growth in 2010, with steady annual employment growth of approximately 1% to 2030 and annual growth in GVA through to 2030 of between 2.7 and 3.4%.

2.26 The Financial and Professional Services Strategy identifies the following growth potential by FPS priority sub-sector:

[7] Source: Cambridge Econometrics, Economic Prospects for the Nations and Regions of the UK (February 2010)

- Accountancy – typically expected through expansion of existing operations (as demonstrated by growth in some of the Big Four accountancy firms in the region), but opportunities also exist around development of niche practises.
- Banking and finance – banking is a fiercely competitive market, there are good prospects for contestable new investments and jobs from both FDI and internal UK relocations from the south east in the medium term.
- Management consultancy – this sector is highly responsive to changes in the broader economy. In the short term the impact of the recession will reduce the demand for some management consultancy services, but conversely, specialists in corporate strategy, outsourcing and areas linked to addressing the recession are expected to benefit.
- Insurance – this market is continuing its rapid growth. However, it is fiercely competitive and companies are responding to this by seeking to maximise efficiency and reduce costs. The North West provides strong competition compared to locations in the south of England.
- Legal services – rising levels of business in the region (and growth of headquartered businesses) will assist in the growth of the legal industry. The region has a number of specialist national teams and advisory services (i.e. property and construction law) and relationships with key business sectors (insurance, AIM, digital and creative industry) that offer opportunities for further expansion. Continued pressure on costs may present an opportunity for the region to capture back office and processing activities.

2.27 The North West, and particularly Manchester and Liverpool (and to a lesser extent Chester), has firmly established itself as a centre for financial and professional services. Growth of the sector is likely to focus on these locations.

The Manufacturing Sector

2.28 Modern definitions of the manufacturing sector recognise manufacturing as a process, with production as one essential element. The definition of manufacturing adopted for the NWDA's Manufacturing Strategy and Action Plan is *"the full cycle of activities from research, design, development, production, logistics, after sales service, maintenance and repair, to end of life management"*.

2.29 Manufacturing is a major source of employment and generator of wealth for the North West. The North West is the strongest performing region in the UK for manufacturing. Indeed, it is the only sector in the North West that has an average GVA per head above the national figure. The North West manufacturing sector has also consistently shown a slightly higher degree of resilience (or ability to withstand long term trends of decline) than many other English regions.

Strategic Plans

2.30 The NWDA Manufacturing Strategy and Action Plan for England's North West, published in 2009, aims to ensure that public sector support facilitates the sector's growth and to ensure that the right mechanisms are in place to facilitate co-ordination across manufacturing between businesses, stakeholders and programmes of activity to enhance the sector's economic performance.

2.31 The vision for the manufacturing sector is:

"The modern manufacturing sector of the North West will be innovative, enterprising, highly skilled, and well led. It will continue to be the most productive element of the regional economy, and a major creator of wealth for the region and its people.

The continuing success of the sector and its recognition in international markets will ensure that a wider range of companies choose the North West as their preferred location, making the North West the UK's premier manufacturing sector."

2.32 The Strategy covers the period 2009-2019, whilst the Action Plan spans three years and will be reviewed on an annual basis.

2.33 Realising the vision will necessitate focusing activity and resources on achieving:

- the Strategic Impact of this strategy which is to raise manufacturing's contribution to regional GVA; and
- the Strategic Aims which are to increase the share of high value adding employment and retain 'good' employment in the region.

2.34 Actions are proposed under the following strategic and cross-cutting themes:

Strategic themes	• Improving the image of Northwest Manufacturing • Increasing capacity and capability to innovate • Improving the interactions of business and education establishments on manufacturing issues • Ensuring that places, spaces and infrastructure are fit for purpose for manufacturing • Increasing new enterprises in manufacturing • Improving access to actionable information on markets and change (including legislation)
Cross-cutting themes	• Ensuring a highly skilled workforce at all levels • Vertical and horizontal co-ordination between businesses • A more responsive public sector

2.35 The Strategy identifies eight priority sub sectors within the manufacturing sector. These are:

- Aerospace
- Automotive
- Chemicals
- Biomedical technology
- Advanced flexible technologies
- Energy and environmental technologies
- Food and drink
- Digital and creative industries

Contribution to the Regional Economy

2.36 There has been a long term structural shift in employment in the North West (and the UK as a whole) away from manufacturing and towards service sectors. Consequently the sector has witnessed and continues to witness long term decline. The sector has declined in employment terms dropping 5% between 1998 and 2006 from 19% to 14% of total employment in the North West. The sector's proportion of total regional GVA is also decreasing, falling from 32% in 1998 to 19% in 2004[8].

2.37 However, manufacturing remains a key contributor to the region's economy. In 2006 it was responsible for generating around £20.3 billion of the North West's GVA. In 2006 the manufacturing sector employed approximately 421,000 people equating to 14% of the workforce in the North West. The percentage of businesses in the manufacturing sector in the North West in 2006 was 7.7%, which represents a decrease of 1.8% since 1998[9].

[8] Source: NWDA, Manufacturing Strategy (2009)
[9] Source: NWDA, Manufacturing Strategy (2009)

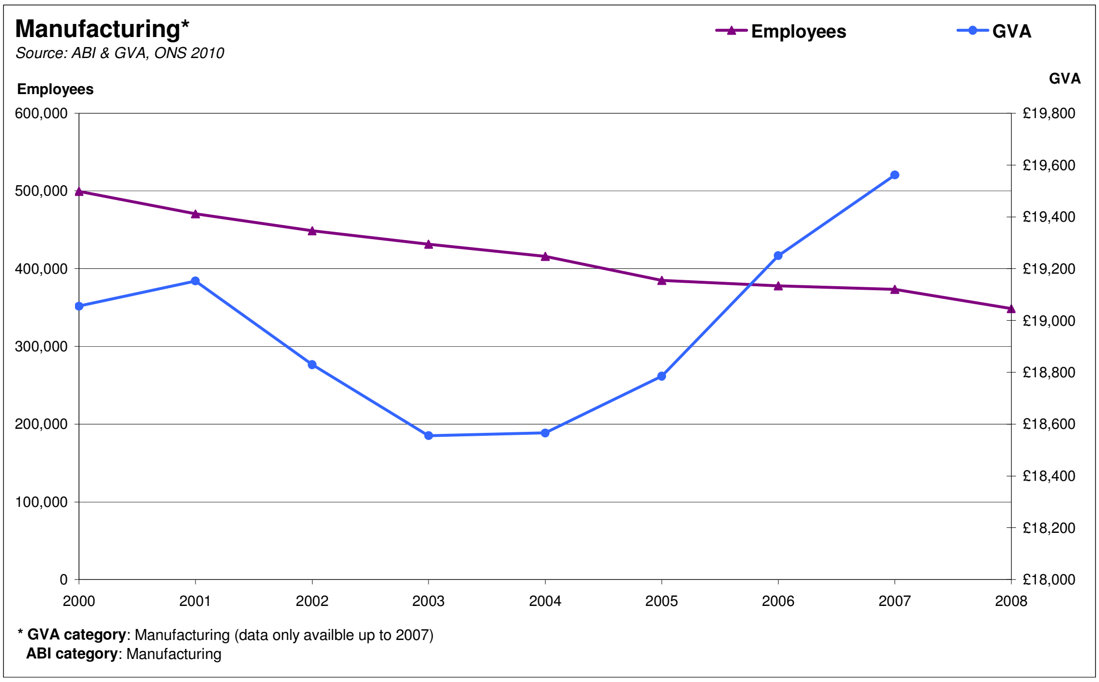


Figure 2. Manufacturing sector decline by employment numbers and GVA (£ millions).

2.38 The North West has a number of specialisms in the sector, in particular, the manufacture of aircraft, motor vehicles, chemicals and pharmaceuticals as well as food and drink related industries.

Impact of the Recession

2.39 There has been a long term trend of declining job numbers in the manufacturing sector in the North West. Given the long term trend of declining employment it is more difficult to establish the impact of the recession on total employment. Cambridge Econometrics data records total manufacturing employment at approximately 398,000 in 2008. Cambridge Econometrics forecast that job numbers will continue to fall at between 1 and 1.5% per annum.

2.40 The recession has also had a negative impact on the GVA of the sector, with falls in both 2008 and 2009. However, the sector is showing signs of recovery and GVA growth is predicted to return in 2010, with long term GVA growth forecast of 1-1.5%. As illustrated in Figure 2, the total GVA generated by manufacturing in the region grew from 2003 to 2007 in absolute terms. Despite the impact of the recession in 2008 and 2009, GVA growth is expected to continue from 2010.

Projected Future Growth

2.41 The structural changes in the manufacturing sector are projected to continue as the economy recovers from the recession and throughout the medium term. Total job numbers in the manufacturing sector are projected to continue to fall. However, five out of six of the key priority sectors have a manufacturing component and small rates of GVA growth (Cambridge Econometrics estimate 1.4% growth per annum) are forecast to continue[10].

2.42 The region is home to a number of specialisms in the manufacturing sector and these sub-sectors (including aerospace, chemicals, bio-medical, advanced engineering technologies and energy and environmental technologies) will continue to serve as key sectors.

2.43 The Manufacturing Strategy identifies the following growth potential by key sub-sector:

- Aerospace – the aerospace sub-sector is primarily focused on airframe, aero engine system and component manufacture and includes key players such as Rolls Royce, Airbus and BAE Systems. Skills levels in the sector are high which is reflected in the average GVA of £70,000 (significantly higher than the average regional manufacturing GVA). Prospects for future growth are positive, particularly focused around existing areas of activity – Cheshire, Lancashire and Manchester.
- Automotive – the automotive cluster accounts for approximately 4% of the regions manufacturing GDP and comprises around 500 businesses. Key players include Jaguar/Land Rover, General Motors, Leyland Trucks and Bentley Motors and activity is generally concentrated around these companies operations in Merseyside, The Wirral, West Lancashire and Cheshire. The future of the automotive sector faces uncertainty with a number of challenges, including overseas competition, HEI linkages and skills shortages.
- Chemicals – the region's chemical sector is considered to be a vital component of the North West economy with a cross cutting role that supports the broader manufacturing sector. It consists of around 650 businesses and generates an estimated £2.8 billion GVA. Key players include AstraZeneca, Unilever and Shell UK, with the bulk of the sector located in a number of small clusters along the M56/M62 corridors.
- Biomedical technology – As well as being Europe's biggest biomanufacturing region, the North West is one of a handful of globally recognised bioscience communities. Covering a range of life science disciplines including drug development, research diagnosis and healthcare products, it is also the UK's largest exporter of pharmaceuticals. Major employers include AstraZeneca, Novartis and Lilly. As with other manufacturing sectors,

[10] Source: Experian, Historical Data Series: GVA and Employment by Sector

there is a real threat to biomedical manufacturing moving overseas due to cheaper labour costs. The pharmaceutical industry is undergoing major restructuring and additional supply chain opportunities may stem from the trend towards outsourcing. The region's strength in biomanufacturing also offers considerable potential for inward investment.

- Advanced flexible materials - the North West contains Europe's largest cluster of technical textile companies, concentrated in central Lancashire and he northern part of Greater Manchester. The sector employs over 37,000 people in 481 companies, with over 70% of the region's output exported. The region is home to airbag manufacturer Autoliv, Europe's largest workwear manufacturer Carrington and a huge range of highly innovative companies. The key issue for the sector appears to be responding to the shift to higher value added manufacturing and the synergy with other sectors in the region (i.e. Aerospace).
- Energy and environmental technologies – this sub-sector is dealt with separately, later in this chapter.
- Food and drink – the food and drink sector in the North West accounts for 10% of regional GVA (generating more than any other region in the UK). The sector employs around 450,000 people in three key areas: food retail and food service; food manufacturing and processing; and primary production. The region has a significant presence of global organisations and high profile brands, including Kellogg's, Heinz and Nestle. The sector also has a large SME base, which adds value and grows innovation. The sector faces a number of key challenges (including recruitment of graduates, shortage of technical staff, increasing globalisation and importing of low cost labour).

Digital and Creative Industries

2.44 Digital and creative industries – Although not usually seen as a sector within manufacturing, digital and creative industries do have a manufacturing element and are a significant growth cluster in the North West. The sector consists of 31,000 businesses employing some 320,000 people (the biggest digital and creative industries cluster in Europe outside of London). The sector is responsible for generating 16% of the regions GVA, but employs only 10.6% of the workforce. New technologies and access to finance are the key issues facing the sector, but the sector's strong representation and significant opportunities such as MediaCity:UK offer significant growth opportunities for the sector.

2.45 Therefore, whilst the manufacturing sector as a whole is projected to shrink in terms of total job numbers, the outlook for priority sectors remains positive, with new opportunities and development of existing strengths.

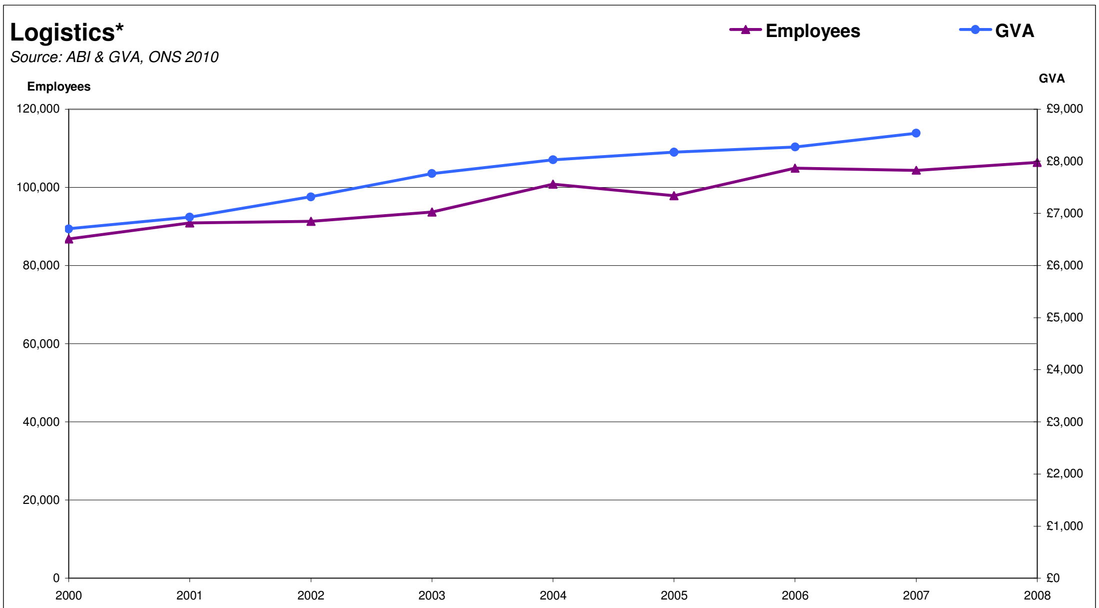
The Logistics Sector

2.46 Logistics is the UK's fifth largest industry employing 1.7 million people. It is essential to the efficient performance of the UK, touching every business and household. Precise definition of the size and value of the sector is difficult to quantify since logistics is intrinsically linked with various other sectors (typically manufacturing and retail).

2.47 Logistics is not a key sector within the RES, although it is recognised as a sector with large and widespread employment. Logistics does not benefit from a sector plan, although the sector is fundamental to the success of key sectors.

Contribution to the Regional Economy

2.48 The logistics sector accounts for 7,294 companies and directly employs 103,529 people (ONS). This represents some 3.4% of the regions workforce. These figures provide a picture of employment levels for those directly employed in logistics. Given that many logistics functions are hidden within other industries, this figure is likely to be significantly higher. Past estimates suggest that the total number of people employed in this sector could total more than twice this number.



* **GVA category:** Transport, Storage and Communication (data only availble up to 2007)
ABI categories: Transport via railways, Other land transport, Sea and coastal water transport, Inland water transport, Scheduled air transport, Non-scheduled air transport, Cargo handling and storage, Other supporting transport activities

Figure 3. Logistics sector growth by employment numbers and GVA (£millions).

Impact of the Recession

2.49 ONS data suggests a very limited impact of the recession on employment numbers and GVA, typically less than 1% fall. Given the difficulties of identifying all logistics functions, the overall impact of the recession could be slightly higher than our desk based review suggests.

2.50 The resilience of this sector is perhaps a result of major retailers continuing their drive towards the perfect supply chain and the emergence of waste and recycling as a major sector demanding space.

Projected Future Growth

2.51 Cambridge Econometrics Forecasts identify that logistics will continue to achieve small but steady increases in GVA year-on-year (typically about 1-1.5%). Employments levels are forecast to remain static.

2.52 The logistics sector will also continue to develop and adjust to reflect environmental policy and supply chain requirements. This in turn will likely have an impact on location and site requirements, although the logistics sector will continue to focus on the key motorway corridors, locations connected to the strategic rail network and the regions key ports.

Energy and Environmental

2.53 The Environmental Goods and Services sector is defined as: 'goods and services to measure, prevent, limit, minimise or correct environmental damage to water, air and soil, as well as problems related to waste, noise and eco-systems' (OECD 1999). In line with UK Government definitions of the sector developed by the DTI, the sector in the North West comprises the following 12 key sub-sectors:

- Air pollution control
- Cleaner technologies and processes
- Decommissioning and decontamination of nuclear sites [and now including commissioning or replacement nuclear power stations]
- Environmental consultancy
- Environmental monitoring, instrumentation and analysis
- Energy management and efficiency
- Marine pollution control
- Noise and vibration control
- Remediation and reclamation of land
- Renewable energy

- Waste management, recovery and recycling
- Water supply and wastewater treatment

2.54 The North West has world-class skills in a number of key environmental and energy technologies. In particular, West Cumbria has become an international centre for nuclear technologies, with 50% of the UK's workforce concentrated there. In Sellafield, it has the UK's most advanced nuclear facility, employing 10,000 highly skilled workers across key production disciplines. In other areas too, the North West is a major contributor to the national energy supply. In offshore oil and gas production, 18 fields supply 12% of the UK's natural gas requirements; and in environmental technologies, over 100 renewable energy companies are developing the next generation of sustainable energy systems and services to capitalise on the North West's sizeable wind and tidal resource.

Strategic Plans

2.55 Energy and environmental technologies is identified as a key sector in the North West Regional Economic Strategy. The sector is included within the overarching Manufacturing Strategy and Action Plan (summarised at paragraphs 2.24-2.29).

2.56 The Sector Strategy states that Envirolink, the Regional Cluster Organisation of the sector, has identified key areas of opportunity for the region in the nuclear, energy efficiency, water and wastewater, renewable energy, waste management and recycling, and land remediation.

2.57 The NWDA will shortly publish the Low Carbon and Environmental Goods and Services Sector Strategy. The draft strategy[11] states that the sector is estimated to be worth £106.5 billion to the UK economy with the Northwest accounting for approximately 10% of the market, second only to London and the South East. It also states that future growth is likely to exceed many other areas of the economy. The strategy identifies a number of supply and demand factors that contribute to the region's strength in the sector. These include strong natural resources around wind and tidal; strong industrial legacy in areas such as nuclear and waste processing; large population and skills base; and large industrial manufacturing sector.

Contribution to the Regional Economy

2.58 According to the Manufacturing Strategy, the energy and environmental technologies sector employs some 87,000 people and consists of around 5000 businesses. Combined, these businesses contributed some £11.25 billion towards the regional economy in 2006.

[11] NWDA (2010) Low Carbon and Environmental Goods and Services Sector Strategy – Draft for Consultation.

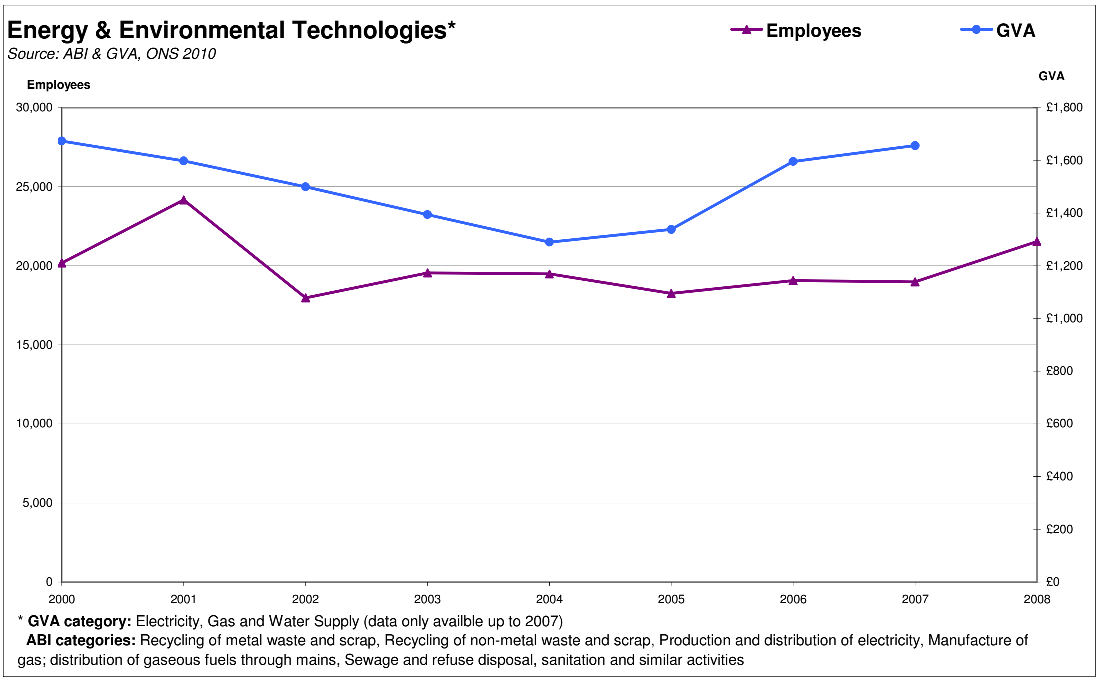


Figure 4. Energy and environmental technologies sector growth by employment numbers and GVA (£millions).

2.59 The North West is at the heart of the nuclear industry, employing over half of the UK's 45,000 workforce. The region is home to one of the world's largest concentrations of nuclear facilities, with a renowned skills base and world class expertise in nuclear technology research and development.

2.60 In a report commissioned jointly by the NWDA, Environment Agency and Envirolink and prepared by Bridge Economics (Environmental Economy of the North West: 2006), it was estimated that the sector sustains 64,300 direct jobs. The GVA generated through these activities is estimated at some £1,690 million per annum.

Impact of the Recession

2.61 ONS statistics and anecdotal evidence suggests that this sector has remained largely unaffected by the recession. Job numbers remained largely unchanged between 2007 and 2008. This is perhaps related to the importance of the sector in meeting national and international targets in terms of reducing environmental impact and carbon costs and procuring a sustainable and secure energy supply.

2.62 Property agents have reported significant interest in sites and warehouse accommodation from the waste and recycling sector, with operators using such premises for waste recycling and energy from waste operations.

Projected Future Growth

2.63 The Energy and environmental technologies sector has witnessed significant and sustained growth throughout the last decade. The growth of the sector has been driven by greater recognition of the potential impacts of environmental change and the policy and practical response to it.

2.64 This sector continues to face significant opportunities. Policies associated to climate change and concerns over the security of the energy supply together with rising oil costs will continue to sustain investment in this sector. Investment will undoubtedly be focused around sustainable waste management, renewable energy and nuclear power.

2.65 The North West has a world leading nuclear energy sector and a number of world class businesses and institutions in the renewable energy sector. The North West will continue to witness the expansion of renewable energy generation and waste management facilities. The North West's strong energy, renewables and nuclear sectors and considerable engineering expertise will provide strong expertise in the design, development and operation of these facilities. The North West is particularly well placed to take advantage of the nuclear renaissance in the UK and overseas.

2.66 Following rapid growth in renewables sector in recent years, future growth of this sector will be more limited and major growth over the next decade is likely to relate to investment in new build nuclear programme, due to commence in 2012.

2.67 A recent paper written for the Northwest Regional Development Agency has informed of the potential opportunities for the construction of wind turbines for development in the Irish Sea and off the west coast of Ireland. A site around the Mersey Ports or West Cumbria would appear to be an ideal location for this use and may lead to a requirement for a strategic site for this purpose.

Inward Investment

2.68 The UK has a long history of using policy to attract and retain investment from foreign owned firms. Despite shifts in approach, such as that from horizontal to sectoral measures, government intervention has largely been justified on three grounds:

- **Benefits accruing:** there are considerable benefits to the UK and its regions from international trade and investment. It makes a major contribution to the UK's economic growth and prosperity;

- **Market failures:** market failures create barriers to international trade and investment and without Government intervention, these barriers would prevent the business community from realising benefits;
- **Cost effectiveness:** there are cost effective actions that Government can take to address market failures and enable business to generate sufficient benefit to justify the cost of intervention.

2.69 Each Regional Development Agency (RDA) within the UK has been responsible for working in partnership with UK Trade and Invest (UKTI) to attract Foreign Direct Investment (FDI) into their regions, and support the internationalisation of indigenous companies.

2.70 The internationalisation of the North West economy has increased significantly over the past decade. More companies are engaged overseas than ever before and recent UKTI data shows the region behind only London and the South East as an investment destination.

2.71 Beyond securing direct investment or trade, there is evidence to show improvements across regional supply chains and raised levels of productivity. Spill over effects are evident in new technologies and processes, research, improved access to capital markets and new management processes.

2.72 Inward investment raises the bar for all regional stakeholders to make business locations in the North West attractive and competitive on an international stage. Moreover, securing major projects like the Bank of New York has raised the international standing of the North West and its cities.

Strategic Plans

2.73 The NWDA works with a variety of national and regional partners to deliver a programme of internationalisation activities. UK Trade & Investment (UKTI) brings together the work of the Foreign & Commonwealth Office (FCO) and the Department for Business, Enterprise and Regulatory Reform (BERR), and leads on international activity in the UK.

2.74 RDAs (in this case NWDA) and the devolved assemblies provide direct Foreign Direct Investment (FDI) support using UKTI funding. The RDAs and their own overseas operations liaise with UKTI following the Committee on Overseas Promotion (COP) Principles and Guidelines.

2.75 NWDA's international programme is structured along two dimensions: the Agency has an inward investment team based in the North West (at Warrington), and it has a presence in several overseas locations. The internal team provides support and services to any foreign owned company wishing to invest in the region, whilst the overseas offices enable NWDA to provide services either directly or through a third party, to companies seeking to do business in the UK (especially in the North West).

2.76 The NWDA and UKTI have developed an Internationalisation Strategy and Action Plan for England's North West. The ISAP 2008 aims to create "A dynamic, sustainable, international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for all" within the North West. One of the Transformational Actions in the RES was to develop a new internationalisation Strategy for the North West. The integrated ISAP aims to enhance the region's international position and maximise the opportunities that globalisation offers whilst mitigating the risks that are an inevitable part of the process of change.

2.77 An integral part of the North West's Internationalisation Strategy is the development of internationally competitive sectors. The Internationalisation Strategy focuses on the six key priority sectors that are part of the Regional Economic Strategy (RES). The sectors are:

- Advanced engineering and materials (AEM)
- Business and professional services (BPS)
- Digital and creative industries (DCI)
- Biomedical including biotechnology, pharmaceuticals and medical devices (BIO)
- Energy and environment technologies
- Food and drink.

2.78 The internationalisation strategy does not operate in isolation, but is supported by and in turn supports other RES actions. To achieve the region's international goals a series of actions have been developed which maximise the international potential of the North West by targeting strategically important sectors and countries, consolidating the region's position in established markets, and exploring opportunities in important growth markets. The focus of activity has been on USA, Japan, India, China and Continental Europe, with the USA and Japan ideally continuing to be serviced through the North of England Inward Investment Agency (NoE) presence for inward investment activities. Activity in India and China (with some extension into Southeast Asia), should be serviced by providing new in-country resources and leveraging existing UKTI resources

2.79 The ISAP allows NWDA to effectively promote the North West's assets internationally by developing clear regional and sub-regional messages, identifying and targeting specific opportunities and contributing to the national drive to promote "UK plc".

Contribution to the Regional Economy

2.80 Recent research undertaken by ekosgen in 2009 has captured the full extent of Inward Investment and related activities within the context of the North West. Not surprisingly, Inward Investment is concentrated in the Agency's key sectors, with 2,400 foreign companies providing 324,700 jobs accounting for more than one in ten jobs within the region (10.8%). Perhaps more interestingly foreign companies account for more than one in every six (17.6%) key sector jobs. This scale of activity means that across the North West, FDI out performs domestic companies against all of the key indicators, including productivity (+45.6%) and wages (+44.8%) - FDI workers enjoy a wage premium in all of the sub-regions, ranging from 32.3% in Greater Manchester to 56.8% in Cheshire.

2.81 Whilst the scale of foreign owned business across the North West is significant, it is not evenly distributed across the region. Half of the North West's foreign owned businesses are located within Greater Manchester, with inward investment accounting for the greatest share of the 'host economy' in Cheshire and Greater Manchester. A similar pattern is demonstrated when considering FDI employment in the North West, with Greater Manchester accounting for 40.6% of all FDI employment in the region, followed by Cheshire (20.6%), Merseyside (16.8%), Lancashire (15.5%) and Cumbria (4.7%). The following table presents the relationships between FDI investment and population:

2.82

	FDI Projects	Population Split
Greater Manchester	40.60%	37.43%
Cheshire	20.60%	12.89%
Merseyside	16.80%	21.34%
Lancashire	15.60%	21.11%
Cumbria	4.70%	7.22%

2.83 The nature of FDI also differs across the region, with foreign companies clearly recognising the sub-regional strengths of the North West. These drive distinctive investment patterns, with nearly 60% of inward investment in Cumbria for example being in manufacturing. Here, whilst Cumbria has the lowest share of FDI jobs (6.9%), foreign companies in the sub-region are highly productive and post world class results. This is likely to be linked to focused investment in specific assets rather than companies seeking to exploit the general city-region strengths of Greater Manchester or Merseyside.

2.84 Each FDI priority sector has experienced an overall increase (and generally a year-on-year increase) in the number of projects they attracted. The following table provides the number of FDI projects by sector between 2004 and 2009.

	Advanced Engineering and Materials	Digital and Creative Industries	Business and Professional Services	Biomedical	Energy and Environmental Technologies	Food and Drink	Other
2004/05	23	17	13	8	6	3	22
2005/06	26	25	14	8	7	8	24
2006/07	39	31	35	16	10	7	6
2007/08	45	28	20	12	12	9	30
2008/09	43	36	39	21	21	15	1

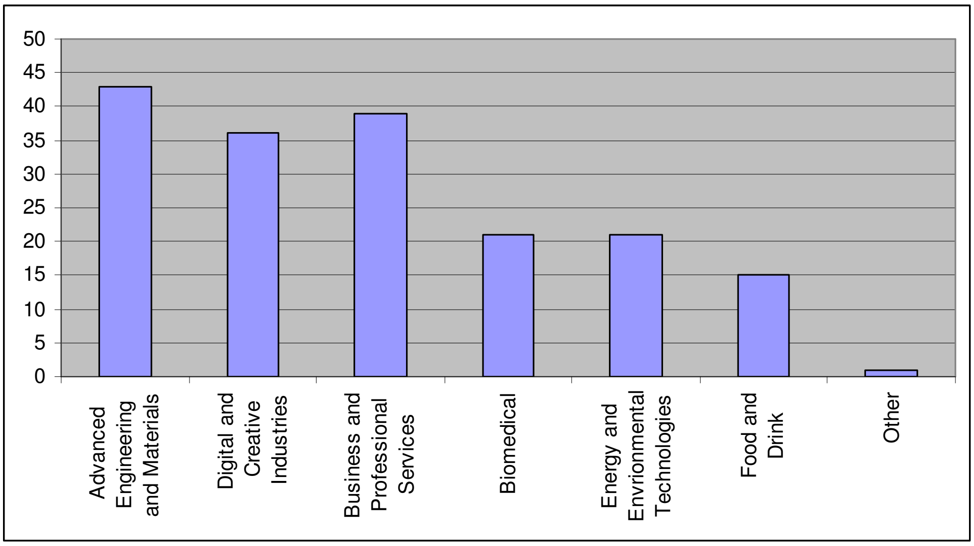
Impact of the Recession

2.85 2008-09 was an extremely difficult year for the global economy and the economic forecast continues to remain uncertain. Yet despite challenging global economic conditions, the UK is outperforming other European competitor nations in terms of inward investment. In the year ending March 2009 the UK secured 1,744 inward investment projects, maintaining the country's standing as the number one investment location in Europe.

2.86 The North West leads the UK's regions for Foreign Direct Investment (FDI) outside of London and the South East for the period 2008-09. Figures released in June 2009 by UK Trade and Investment (UKTI) show that the number of inward investment projects secured in the North West over the last financial year rose to the highest recorded number for the region, despite difficult economic conditions.

2.87 The number of jobs created or safeguarded remained strong, being higher than anywhere else in the UK outside of London, with significantly higher figures achieved compared to 2006 and 2007 levels, but a lower total compared to the figures achieved in 2008. Despite securing more FDI projects in 2009 than any other year, there has been a trend for these projects to be smaller in size.

2.88 The North West attracted 176 investment projects during 2008/09, an increase of 21 projects from 2007-08 and an increase of 64 projects on 2006-07. The following bar chart illustrates the distributions of projects by sector.



2.89 These have created or safeguarded 11,436 jobs, an increase of 4,000 on the 2006/07 totals, but 3,000 less than the record breaking figures achieved during 2007-08. Not surprisingly, the USA remains the key source of FDI into the North West, followed by investment from Germany, Switzerland and Japan.

Projected Future Growth

2.90 Projected future growth figures are not available for inward investment. However, the Internationalisation strategy did set three targets for inward investment:

- To achieve a total of 150 projects per annum.
- Increase the quality of projects in term of achieving greater research intensity (increasing R&D projects to a 17% share) and increasing the average salary (projects to have an average salary of over £30,000).

2.91 The target for total projects was exceeded in 2008/09 and is set to be exceeded in the current financial year.

2.92 Future growth of inward investment will continue to improve the regional economy. Companies that export have consistently shown an improvement in productivity, while overseas investors pay more and are more productive than indigenous firms.

Summary and Conclusions

1. **Financial and Professional Services**

- The UK is a world leader in this sector
- There has been huge employment growth to date in this sector
- Manchester, Liverpool and to a lesser extent Chester are focuses for growth
- The sector accounts for 12.9% of the region's GVA
- The sector offers considerable potential for FDI
- Forecast return to growth in 2010, continuing to 2030

There is continuing potential demand for sites and properties for the financial and professional services sector including inward investment in Manchester, Liverpool and Chester.

2. **Manufacturing**

- The North West is the strongest performing region in the UK
- GVA per head is higher than the national average
- The manufacturing sector in the North West has consistently shown a slightly higher degree of resilience than many other English regions
- Key sub sectors are: aerospace; automotive; chemicals; biomedical; advanced flexible materials; energy and environmental technologies and food and drink
- The sector has shown employment decline, but strong absolute GVA growth since 2003
- The sector offers long term GVA growth potential
- There are a large number of blue chip companies in the North West (e.g. Rolls Royce, Airbus BAE, Tata, GM, VAG, Astra Zeneca, Unilever, Shell, Novartis, Lilly, Kellogg's, Heinz, Nestle)

Manufacturing is a massive sector in the North West. It has produced and is forecast to continue producing strong GVA growth and has positive prospects despite falling employment. Whilst future site requirements are difficult to predict, it is likely that future growth in a number of sectors will be focussed around existing areas of activity.

3. **Logistics**

- Logistics employs around 3.4% of the North West workforce
- The sector provides steady GVA growth
- The sector has been resilient to the impact of the economic downturn
- Small scale growth is forecast to continue

Logistics is essential to the efficient performance of the economy. It is a minor but important part of the North West economy. Further investment and development in the sector is forecast at key transport nodes and along key transport corridors.

4. **Energy and Environmental Technologies**

- The North West is home to a variety of world class skills in this sector
- The North West supplies 12% of the UK's offshore oil and gas
- The UK is one of the top five markets for offshore wind energy
- Potential opportunities exist in the North West to capitalise on the Irish Sea and Irish Coast offshore wind turbines
- The sector enjoys stable employment and GVA growth and has remained largely unaffected by the recession
- Strong demand is reported for waste recycling sites
- Significant long term opportunities driven by government policy and need to maintain security of supply. Major growth is likely to relate to investment in the new build nuclear programme.

The energy and environmental technologies sector will remain a significant and long term opportunity, capitalising on North West skills and assets with potential specific site requirements.

5. **Inward Investment**

- The North West is second only to London and the South East as an FDI location
- FDI accounts for more than 10% of jobs in the North West and more than 1 in every 6 key sector jobs
- FDI outperform domestic companies against all of the key indicators (including productivity and wages)
- Half of the foreign owned companies in the North West are situated in Greater Manchester and 40% of FDI employment

- Cheshire is also a significant location with 20% of FDI employment
- The largest number of recent FDI projects have been in advanced engineering and materials, business and professional services and digital and creative industries
- The food and drink sector has witnessed significant growth in FDI

FDI is a critical component of the North West economy. It is a highly resilient and successful component. Greater Manchester and Cheshire have been particularly successful in attracting FDI projects, but FDI is no less important in Merseyside, Lancashire and Cumbria.

3 Property Market Overview

3.1 This section of the report provides an overview of the property market across the North West based on publically available information. It provides a detailed review of the industrial and distribution markets and the office markets across the North West. We provide an overview of the national picture before looking at the regional and more local market areas. This will provide a comprehensive market view of the supply and demand picture within the region and the effect of the global recession on the local markets.

3.2 We also comment on the implications of environmental/climate change/sustainability policy on the property market and how it will affect the supply and demand picture and whether it will influence occupiers decisions on where to locate.

Industrial & Distribution Market Overview

National Picture

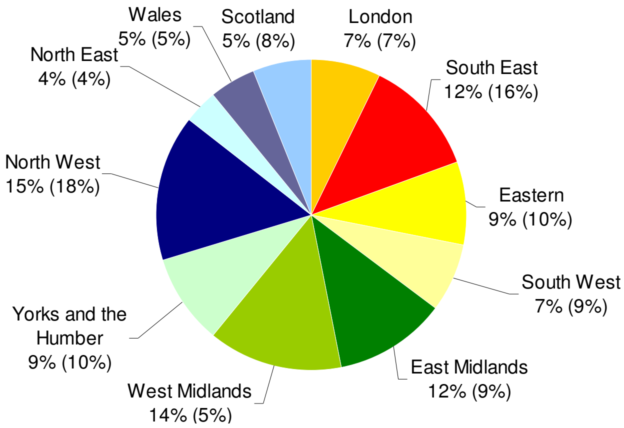
Industrial

3.3 In certain areas, the factors for speculative development are coming together and this could return by the end of 2010.

- The occupational market exhibited the early signs of recovery in the latter half of 2009 as take-up improved to record a 10% increase on the previous year's level. This was not sufficient to counteract the release of second-hand space onto the market, which pushed overall availability up to 320m sq ft, an increase of 22% on the end 2008 level.
- The availability rate for the UK industrial market as a whole rose to 8.9% at the end of 2009 from 7.3% at the end of the previous year.
- New space on the market fell to below 60m sq ft, a decline of -19% from the previous year as occupiers targeted this sector of the market in the light of the preferential terms on offer.
- The large shed market also saw a fall in new space on the market, with only 26m sq ft of availability in buildings of 100,000 sq ft and above.

Industrial Take-up 2009

Total Take up is 86 m sq.ft (2008 % in Brackets)



Source: LSH Research

3.4 The pie chart clearly shows how the North West leads the way nationally in relation to industrial and distribution take-up, a trend that has been maintained over the last 2 years. This shows the region's attractiveness as an industrial centre but also highlights its importance to the distribution network of UK companies.

Short-term predictions

3.5 The recovery in demand which began in the second half of 2009 is expected to continue and take-up in early 2010 looks strong. Shortages of new built stock have become apparent in particular areas of the market, for example in large buildings in the south of England and the mid-size market (25,001 to 50,000 sq ft) across most of the UK in areas where shortages are acute, it is considered that speculative development may return in 2010.

3.6 Availability is expected to remain high with the continued release of second-hand space onto the market, as inefficient businesses continue to suffer. In areas where supply is tight, competition from occupiers for new space will put upward pressure on rental values.

Medium-term predictions

3.7 As the economic recovery gathers momentum, it is expected that occupier demand will improve. Distribution should recover as retailers continue to improve their supply chain in order to benefit their bottom line profits in a fiercely competitive environment. Internet and food retailers will continue to drive the market together with Sustainable Technologies. Speculative development returns will be earlier than expected but only on a restricted basis and development completions are not expected to outstrip demand. There will be upward pressure on prime new build rental values, although the large over-hang of second-hand space will hold back rental levels in general. Imbalance in supply and demand for size range 20,000 to 50,000 sq ft.

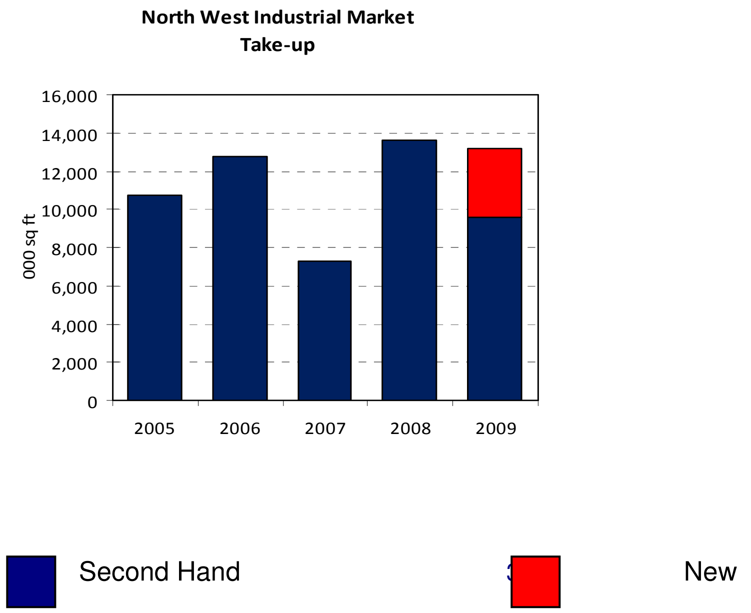


Table 3.1 – NW Industrial Market Take up 2009 – source LSH Research

Distribution

3.9 At the start of 2009 demand was almost non existent and values were falling. By the end of the year, demand picked up markedly leading some commentators to suggest the market is on the verge of speculative development once again and the return of rental growth, in some areas, is a distinct possibility.

3.10 The main focus of demand has been from the retail sector, with the major retailers and grocers continuing their drive towards achieving the perfect supply chain. This year has also seen the emergence of waste and recycling as a major sector demanding space. The level of demand expected from this sector is significant and, encouragingly, many operators can fit within standard warehouse premises. Given the shortage of larger units in some areas, it is not unrealistic to expect rental growth and some speculative development returning to selected parts of the UK in 2010.

Supply

3.11 The availability of buildings of 100,000 sq ft and above increased for the second year in a row, rising by 18% over the year to end 2009 at 93m sq ft. The share of floor space on the market accounted for by new stock fell to 28% of total built stock from 38% at the end of 2008. New floor space on the market accounted for 26.3m sq ft of accommodation, 44% of total new stock on the market.

Availability by region

3.12 The majority of regions have seen an increase in large unit availability over the past 12 months with Scotland, Wales and the North West seeing the largest increases of space on the market. The North West saw the largest increase in available space with circa 14,000,000sq.ft more space available in 2009 than 2008. The South West and Eastern regions have seen large unit availability decline, largely because of the lower than average release of second-hand space onto the market. More than 60% of available big shed units are in the Midlands, the North West and Yorkshire & the Humber regions. This is broadly in line with these regions' share of availability registered in 2008. Whilst each of these regions also has a greater amount of new, large unit floor space, the West Midlands and North West have a higher concentration of second-hand floor space, 73% and 74% relative to overall availability.

Take-up by region

3.13 The Midlands, North West and Yorkshire & the Humber dominated activity, accounting for more than two-thirds of the take-up of big shed units with the North West alone leading the way with circa 6m sq.ft of take-up. The largest transaction undertaken nationally during the year was the 620,000 sq ft sale of The Vault, Speke, to B&M Bargains for £18.5m. The building was speculatively built by Gladman in April 2007 and had stood empty since completion, although Gladman did sell it to Rockpoint. Take-up in the London and South East markets continues to be held back by shortages of supply of larger buildings.

Take-up by size

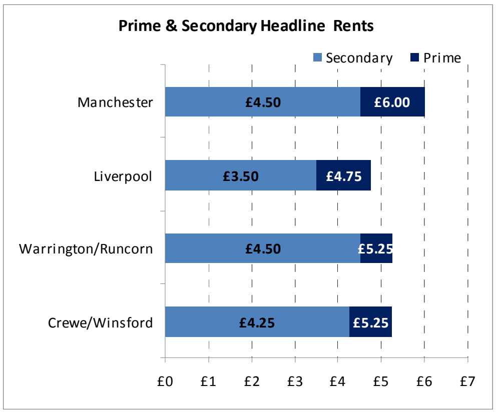
3.14 Take-up of units larger than 100,000 sq ft accounted for 25% of overall transactions in the UK industrial market. An additional 11m sq ft (13% of total take-up) of activity was recorded on units of 50,001 to 100,000 sq ft. whilst the northern and Midlands regions dominate activity in the 100,000 sq ft and above market; take-up in the 50,001 to 100,000 sq ft market is relatively evenly spread throughout the UK. The southern regions account for 20% of transactions of over 100,000 sq ft but the figure is closer to 30% when looking at deals completed in the 50,001 to 100,000 sq ft size band.

Large building availability by unit size

3.15 The availability of buildings of 100,000 sq ft and above has increased over the past 12 months but this is wholly due to the release of second-hand stock on the market. In addition to the 93m sq ft of floor space in 100,000 sq ft plus units, there is a further 44m sq ft in units of 50,001 to 100,000 sq ft. Supply in the larger floor space market, as with most other size bands, is dominated by the principal Midlands and northern regions, although the southern have a stronger representation of available floor space in the 50,001 to 100,000 sq ft size band, accounting for 27% of overall availability.

Take-up

3.16 The first six months of 2009 saw very little activity in the market. Take-up of larger buildings increased in the second six months, resulting in take-up of 20m sq ft for the year as a whole. Take-up was down -12% on the previous year's total but the recent trend looks promising for the coming 12 months, although the supply of new built stock in this area of the market remains tight. Almost one-third of all take-up was of Grade A stock, as tenants were able to secure good-quality buildings on competitive terms.



PRIME RENTS (£ per sq.ft.)

	Secondary	Prime
Crewe/Winsford	£4.25	£5.25
Warrington/Runcorn	£4.50	£5.25
Liverpool	£3.50	£4.75
Manchester	£4.50	£6.00

3.17

Table 3.2/ 3.3 – Headline Rents, NW England: Source LSH Research

Industrial and Distribution Market Trends

Short Term:

- Shortages of new built stock in particular areas of the market; large buildings in South of England and mid size market across most of UK
- Speculative development may return in 2010 in areas where shortages are acute but design and build likely to return for majority.

- Recovery in demand in second half 2009 and take up in early 2010 looks strong - question still remains is this fragile?
- Continued release of second hand space as inefficient businesses continue to suffer.
- Competition from occupiers in areas where supply is tight will put upward pressure on rents

Medium term:

- Occupier demand to improve as the economic recovery gathers momentum
- Waste sector increasing impact in marketplace
- Internet and food retailers to continue to drive the market together with Sustainable Technologies/3pl/4pl
- Speculative development returns earlier than expected but not expected to outstrip demand

Summary of North West Industrial and Distribution market

3.18 The North West recorded a significant level of take-up in 2009, with 13.2m sq ft of floor space acquired. This was broadly in line with the total recorded in the previous year but higher than the previous three years. Availability increased to 9.2% of total industrial floor space in the region, with 47% of stock on the market in buildings of 50,000 sq ft and above. Grade A availability accounted for 20% of total stock on the market, with more than half of new floor space in larger units.

3.19 The level of available stock in the Greater Manchester and Merseyside property market areas fell by 15-20% over 2009 due to the strong levels of take-up. The lack of speculative development creates a risk that in the medium to long term there will be of a shortage of supply. This is because with supply constrained by the lack of development occupiers will be forced to take second hand stock unless they are prepared to sign pre-let agreements on new developments.

3.20 It is clear from rental levels that there is no short term issue with supply. Prime rental values have fallen in both Greater Manchester and Merseyside, whilst Runcorn and Crewe have seen values remain at end 2008 levels. As the market reacts to the supply shortage expected in the medium to long term then we would expect rents to rise.

Greater Manchester

3.21 The latest official ODPM stock data for Manchester suggests that industrial stock is 77.3 million sq ft. Similar sized centres include Birmingham and Leeds. These stock figures refer to the combined districts of Manchester, Salford and Trafford. However, the stock figures exclude space in the nearby areas of Oldham, Rochdale, Stockport, Bury, Bolton, Wigan and Tameside which form part of the Greater Manchester property market. The stock can be broken down into factories and warehousing. If this is done, 44% of the industrial stock is defined as factories, and 56% as warehouses. In Manchester, 5.6% of total industrial stock is new, having been built within the last five years.

3.22 In 2009 take up in Manchester is estimated to have risen by 8% in 2009 to 1,784,000 sq ft. At this level, take up in Manchester was 12% below the 5 year average. However this average is skewed by the high level of take up recorded in 2007. In the last five years to Q4 2009 the amount of space pre-let/purpose-built in Manchester averaged 306,000 sq ft per year, or 15% of take up.

3.23 Big Sheds - units of over 100,000 sq ft – are a key part of the Manchester market. Over the last five years, Big Sheds have accounted for 43% of take up. Despite the downturn in the economy, in the last year to Q4 2009, the share of take up from Big Sheds has risen to 60%, accounted for by 6 deals. Within the more traditional industrial market - units under 100,000 sq ft - the size band seeing the largest share of take up in Manchester over the last five years to Q4 2009 has been 25,000 to 50,000 sq ft bracket, accounting for 18% of all space. Over the last year to Q4 2009, this size band has remained the most active.

3.24 Activity at the larger end of the market, above 150,000 sq ft, has been strong over 2009, with a number of significant transactions in the Manchester area. Two of the largest deals were the 210,000 sq ft lettings at Fusion, Trafford Park and Broadway 21, Oldham to Biffa Waste Services and Great Bear respectively. These deals highlight two constants over recent times; Trafford Parks continued dominance of the market as the prime location in the North West and the increased demand from the waste sector for space. In contrast there has only been a limited amount of good-quality, large units coming to the market and with no speculative schemes under construction the prospects for supply look limited in the short term.

3.25 There have been few deals between 20,000 and 100,000 sq ft; transactions were only achieved where competitive terms were offered. Segro has taken over the Trafford Park Portfolio and reduced rents; this means that we are likely to see greater activity here. The only speculative scheme to be completed over the past 12 months is a small unit scheme extending to a total of 54,600 sq ft by Seddon Developments at Axis Point in Rochdale. This demonstrates the limited new space which is coming onto the market; notably 25% of the Axis Point scheme was sold within the first three months, which is an example of the resilience of the market for buildings below 20,000 sq ft.

3.26 At Manchester Airport, the World Freight terminal provides over 600,000sq.ft of industrial and office floorspace. There has been limited new industrial and distribution development serving the airport in recent years. Manchester Airport Developments Ltd has recently undertaken a masterplanning exercise to identify the potential for a new World Freight terminal location, which would free up the existing site for the redevelopment of Terminal 2, although these plans are not yet certain. The airport is the fourth largest freight terminal in the UK by volume, although during 2009 it experienced a 28% drop in the level of freight coming into the terminal. Development around the airport is heavily constrained due to greenbelt and environmental issues and this will make development in this location extremely difficult to locate. Whilst we would expect demand for industrial and distribution uses in this location due to the strong links with the airport and the fact that South Manchester does not have a distribution park with a good supply of high quality, modern premises. However, in the main distribution operators prefer to be a drive time from the origin of the produce and as such the true level of demand in this location should be treated with caution. .

3.27 Another key location within the Greater Manchester area is Kingsway Business Park in Rochdale. The park is currently under development by Wilson Bowden and is a strategic regional site which will potentially be able to accommodate almost 3 million sq.ft (278,709 sq m) of industrial floorspace. The site's location on an improved junction with the M62 will make it attractive to occupiers, particularly within the industrial and logistics sector. NWDA and public sector funding has helped complete infrastructure on the site and there are currently five speculative industrial units developed on the site with two let and three on the market with between 20,000sq.ft to 35,000sq.ft. A further unit of 71,000sq.ft is currently under construction and benefits from a pre let. Kingsway is expected to compete with the established Heywood Distribution Park for major occupiers now that the junction improvements on the M62 have been concluded.

3.28 There have been few developments of note in Bury, Bolton and Wigan with these areas of Greater Manchester continuing to provide for their respective local markets. Ashton Moss in Tameside has seen success in recent times, the first phase of industrial development is now fully occupied. There are still 30 acres of land available for new industrial development but at present there are no signs of further development, however its location and in particular its proximity to the junction 23 of the M60 mean that there is likely to be further demand once the market conditions improve.

Merseyside

3.29 The latest official ODPM stock data for Liverpool suggests that industrial stock at end-2007 is 62.9 million sq ft. Similar sized centres include Leeds and Newcastle. The stock can be broken down into factories and warehousing. If this is done, 59% of the industrial stock is defined as factories, and 41% as warehouses.

3.30 In Liverpool, 8.3% of total industrial stock is new, having been built within the last five years. Since the start of the last decade, annual recorded take up has ranged from 500,000 sq ft to 1,700,000 sq ft, with exceptional years of take up driven by major deals of between 250,000 sq ft and 650,000 sq ft. Liverpool saw take up boosted by a 611,000 sq ft deal agreed in the final quarter.

3.31 Two of the Liverpool City Region's four large, high-bay buildings have seen significant transactions over the second half of 2009 – Pioneer Point, Ellesmere Port and The Vault at Speke. Discount retailer, B&M Bargains, bought Rockpoint's 620,000 sq ft building at Speke, Liverpool, whilst Interserve, a supplier of services and equipment to the construction industry, took 240,000 sq ft of Royal London's Pioneer Point. In response to the reducing size of enquiries, Royal London Asset Management has adopted a flexible approach at Pioneer Point in Ellesmere Port and has decided to split the 625,000 sq ft building. Several speculative schemes were completed in 2009, notably St Modwen's, Stonebridge Business Park, totalling 60,000 sq ft in four units close to the end of the M57 and Caddicks 80,000 sq ft development in ten units closely at Penhryn Court, Knowsley. Transactions at these schemes have been slow, with only one unit sold at Stonebridge and one let at Penhryn Court. At the small end of the enquiry range there has been some success at Vesty Business Park, developed by Priority Sites, where all but one unit of 120,000 sq ft of this 160,000 sq ft estate has now been either let or sold.

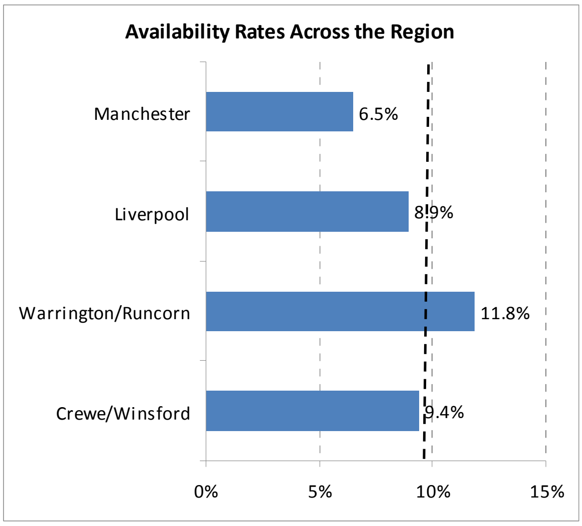


Table 3.4 – Availability rates across NW region 2009; source LSH Research

3.32 As with Manchester, the area around Liverpool airport is a key employment location. The City Council along with Peel and the NWDA have commissioned a masterplan for the area to create a new international gateway for high tech manufacturing and business. This will build upon existing occupiers within the area, which include high value occupiers with skilled employment including Novartis, Eli Lilley and the Jaguar Halewood plant.

3.33 Also located around the airport are UK Land's Estuary Commerce Park, which has key logistics occupiers such as DHL, Quay Pharma and Littlewoods Direct, the commerce park is also home to the National Bio Manufacturing centre. UK Land has also developed the nearby Boulevard Industry Park, which provides over 1million sq.ft of space to pharmaceutical companies such as Chiron Vaccines and a number of international automotive parts companies.

3.34 The Port of Liverpool consists of docks and land totalling 1,200 acres on both sides of the River Mersey within the Liverpool and Birkenhead Docks. It is owned and operated by Peel Ports and is a key deep water port for shipping trade between the UK and North America. Peel are currently planning a second container terminal which will double the port's capacity, alongside a new cruise ship terminal close to the centre of Liverpool. The Freezone within the port currently provides over 3million sq.ft of warehousing with plans to create a further 400,000sq.ft increasing capacity to close to 4million sq.ft.

3.35 According to a report prepared for the NWDA by MDS Transmodal and Regeneris; the most important strategic opportunity for Liverpool in the next five to ten years is likely to be the growth in port centric distribution (for example the Tesco import centre in Teesport and similar centres operated in or close to ports by Argos, B&Q and Asda). Liverpool's position as the only deep sea container port on the west coast of England, its central location and proximity to large centres of population means that it is well placed to take advantage of the growing willingness of logistics managers to consider port locations, providing sites can be assembled and made available. Whilst the development of port centric distribution is likely to generate significant additional employment in close proximity to areas of high employment need, assembling the large site required would need to be fully justified by the port operator, given the significant planning issues involved. The port is in the process of developing a port masterplan for the Department of Transport. The masterplan, once produced, should indicate what actions or interventions are required to overcome the barriers to development.

3.36 Wirral International Business Park is another success story on the banks of the Mersey. The site provides some 336 hectares of industrial and commercial development land and is already home to 100 businesses. Whilst it is a well established industrial area there has been recent office development on the park.

3.37 Knowsley Industrial Park is the largest industrial area in Merseyside. Over 600 businesses trade within its 1,000 acre setting, covering a broad spectrum from multinational corporations to small businesses and micro enterprises. The estate is built on the site of a former Royal Ordnance factory. Much of the existing stock is obsolete and ready for redevelopment. The park is starting to regenerate itself, with new developments including the expansion of the QVC complex, Langtree's development of Alchemy Business Park and the refurbishment of the Academy Business Park by Orbit.

3.38 Knowsley Council owns the freehold interest in a significant area of the park with occupation by the various businesses provided by ground rent and peppercorn leases varying in length from the remainder of 99 year to 999 year terms. They are currently undertaking a masterplanning exercise to determine the future of Knowsley Industrial Park which is currently constrained in its expansion by surrounding uses such as residential and the Green Belt.

3.39 In addition to the above, the Merseyside Multimodal Gateway at Ditton (3 MG) provides ample opportunity for logistics and distribution occupiers located within the heart of the City Region with excellent access to both the motorway network and the West Coast mainline. Ditton currently has 750,000sq.ft of specialist distribution warehousing, with an outline permission for a further 1.8million sq.ft and the potential to provide up to 3.5million sq.ft. This strategic site markets itself as a key linkage between deep water port at Liverpool and those in the South East with intermodal freight interchange services, and has attracted major logistics firms such as Eddie Stobart, incorporating their road and rail arms.

3.40 Pro-logis are also planning to develop Parkside in St Helens as a major multimodal distribution hub. The site is expected to deliver circa 8m sq.ft of distribution floorspace adjoining the M6 motorway and the connected to the national rail network. Subject to planning approval this site could become a major distribution facility, however there are still a number of hurdles to overcome and as such it is impossible to predict the role the site will have for the region in the medium to long term.

Cheshire & Warrington

3.41 The Cheshire and Warrington property markets are dominated by Warrington, in the main Cheshire provides more space for the local market area.

Warrington & Halton

3.42 Warrington remains one of the North West's key industrial and industrial locations due to its prime location adjoining the M6, M62 and M56 motorway corridors. 2009 saw Warrington struggle with the economic climate as only 39 deals where completed compared to 47 the previous year. The main issue was that these deals only equated to 38,000 sq ft[12] the lowest amount of take-up since records began in 1998.

3.43 The latest official ODPM stock data for Warrington suggests that industrial stock is 20.7 million sq ft. similar sized centres include Nottingham and Derby. The stock can be broken down into factories and warehousing. If this is done, 32% of the industrial stock is defined as factories, and 68% as warehouses. In Warrington, 4.5% of total industrial stock is new, having been built within the last five years.

3.44 The two largest transactions in Runcorn and Warrington were completed in the second half of the year; the 367,000 sq ft letting at Manor Park, Runcorn, to Eddie Stobart and the 105,000 sq ft letting to Next at Winwick Quay, Warrington. At the smaller end of the market there continues to be a turnover of units, although there is a gap of enquiries of above 20,000sq ft and below 150,000 sq ft. Patrick Properties has completed a part speculative scheme on the back of a substantial pre-let of 130,000 sq ft to Advanced Medical. The speculative element of the scheme totals almost 50,000 sq ft in three units. The most significant speculative building to be completed in Cheshire over the past 12 months was Manor Point, a 130,000 sq ft unit at Manor Park, Runcorn. Notably this building has two occupiers seeking terms and is likely to be let in early 2010. Second-hand supply has increased in the area with a number of retailers giving up good-quality space.

3.45 As with the rest of the North West agents are reporting increased incentives on buildings to try and entice operators. There is a lack of speculative development and no significant freehold market as developers and occupiers alike struggle with the current restrictions on finance.

Cheshire West and Chester

3.46 Cheshire remains an affluent area within the regional economy, benefiting from the economic growth of Manchester and Liverpool and its attractiveness as a place to live and work. Recent local authority reorganisations have created two new local authority areas covering the whole of Cheshire. Cheshire West and Chester was created by the amalgamation of Chester, Vale Royal, Elsmere Port and Neston.

[12] Draft Warrington Property Market Report 2010, BE Group

3.47 The National Land Use Database has consistently shown that the North West has the highest proportion of brownfield land compared to any other region within England. A historic legacy of industrial growth in the former Ellesmere Port and Neston borough has continued over recent years with several new office and light industrial schemes coming forward, such as Peel Land and Property's 15,000sq.ft of offices at phase 1 of Pioneer Park. Large scale distribution and the 'big sheds' market has also been an important area of activity, with Ellesmere Port playing a key role.

3.48 Chester has a limited industrial offer and suffers from a shortage of supply in terms of larger units. Industrial locations such as Sealand Industrial Estate and Chester Gates are established but there is little in the way of future opportunities and in many instances enquiries are lost to the North Wales market.

3.49 Away from Ellesmere Port, Winsford is the other key industrial market in the new local authority area. The property market is dominated by the Winsford Industrial Estate and the Woodford Park Industrial Estate. Recent developments at the established Winsford Industrial Estate include Oasis Business Park comprising 13 industrial/business units, Navigation Park comprising 9 new build trade counter/light industrial units and the managed business centre known as Meridian House. Northwich provides mainly for the local market with no significant industrial development expected.

Cheshire East

3.50 The Cheshire East local authority area was created through the amalgamation of Macclesfield, Crewe and Nantwich and Congleton local authorities. The area is not seen as a major industrial or distribution market with one or two exceptions.

3.51 The strategic site at Alderley Park is home to Astra Zeneca. This is an important site for the region as it provides a specialist facility for a multi national company. There are future opportunities in research and development linked to the facility here.

3.52 The Basford sites in Crewe also have significant potential but have so far been constrained by the development costs, in particular the need for an improved link to the M6. Subject to these constraints being overcome this site could provide significant opportunities for South Cheshire.

3.53 The other major site in Cheshire East is Mid-point 18 on the edge of Middlewich. This site at junction 18 of the M6 and has so far been successful in attracting occupiers such as Scottish Power, Tesco and Wincanton. Further development on this site is likely to be dependent on the construction of the Middlewich bypass.

Lancashire

3.54 The industrial market in Lancashire is wide and varied with different characteristics in different parts of the County.

North Lancashire

3.55 The industrial market surrounding Lancaster, Morecambe and Heysham is based around a number of key industrial estates. These industrial estates provide a mix of second hand and newer accommodation catering primarily to a localised pool of companies. The more popular industrial estates are those that have good access to the M6 motorway. In particular, the Lansil Road Industrial Estate, along with various industrial properties which have been developed along Caton Road is popular with firms which look to a wider regional market. White Lund has also historically been a popular location, although convoluted access around Lancaster City Centre has stopped the site from appealing to a wider regional market. The new Heysham link road which will provide access directly from the M6 is likely to open up new areas for development and increase the popularity of this part of the district.

3.56 The Port of Heysham has a throughput of 4million tonnes per year, which designates it as a major port. The throughput is specialised, mainly focusing around Roll on Roll off traffic, with links to Dublin, Belfast and Douglas on the Isle of Man. Peel Ports has confirmed that the company has no plans for major expansion of the port in the short to medium term and any growth during this time can be accommodated within existing land holdings and more efficient use of the port and larger vessels. Within the Medium to long term, however, the lack of available land around the port is likely to constrain expansion. Heysham is also a potential site for a new and improved nuclear facility, however, this is likely to be an extreme long term opportunity as the reactors are not due to be decommissioned until 2014 (Heysham 1) and 2023 (Heysham 2) with the decommissioning process taking a further 5 years.

Central Lancashire

3.57 The main Preston industrial market is located around the eastern area of the city, close to the M6 motorway. The key locations within this area of the City are Fulwood, Red Scar Business Park and Roman Way Industrial Estate. These sites provide the opportunity for new large scale distribution and logistics sheds, however, Preston as a location is not generally considered an important location within the wider, national picture. Fulwood and Red Scar provide the greatest opportunity for new development and we understand that there is committed and allocated land that could potentially provide in excess of 2million sq.ft of industrial floorspace.

3.58 Notwithstanding the above, the Preston market is generally dominated by industrial buildings within the 3,000-5,000 sq.ft range. This incorporates a range of historic buildings in and around the City and more modern small scale units. Larger industrial sheds are located in the key eastern areas named above. However, the average unit size is still generally around the 10,000 sq ft mark.

3.59 Buckshaw Urban Village in Chorley is located on the old Euxton ordnance factory. Whilst the majority of the site has been redeveloped for new housing, Revolution Park is a 52 Ha (128 acre) Industrial and Logistics park which is being developed by Helio Slough. As we understand it two units have been constructed on the park, one was built on a pre let to Wolsley who have since vacated and a new company has quickly put the building under offer. The second building has been on the market for approximately 2 years, although this is not always considered a long period of time for warehouse buildings in excess of 200,000sq.ft. A further three buildings are planned, ranging in size from 100,000sq.ft to 230,000sq.ft. We understand that these are on a speculative basis and have not commenced due to issues with the market and empty property rates.

Fylde Coast

3.60 The key industrial area within West Lancashire lies within the Wyre Borough. The Thornton Strategic location for development is a brownfield site which was known as the Hillhouse Chemical Works operated by ICI. Since ICI's disposal of the site, NPL Estates have brought forward sections of the site for a range of uses. Key occupiers such as Vitrex, Asahi Glass, Addison Engineering and RegenIQ laboratories have located within Hillhouse Business area which occupies approximately 104Ha. We understand that there is approximately 52 Ha of land for employment development, however, attracting general industrial occupiers to this location could be problematic due to it's relatively isolated and congested location.

3.61 Welsh Power has submitted proposals for a £600m gas fired power station on the Hillhouse site. This highlights the area's attractiveness to specialist occupiers and the potential for growth of energy related industries in this area.

3.62 Blackpool's industrial market is mainly based around local occupiers. The main opportunity in the area is the airport and the potential for growth in the distribution. The key site in the area is Whitehills Business Park; this is an established mixed use employment area with potential for expansion for airport related uses. The other site of importance is the North Blackpool Technology Park, although on the small side it does provide opportunities for new businesses. West Lancashire local authority area has no significant regionally important employment opportunities.

Pennine Lancashire

3.63 The East Lancashire Industrial market is primarily focused around local occupiers providing small scale manufacturing and distribution operations. There is an oversupply of dated mill buildings which have been partially converted for modern uses. Generally these premises have had little investment and are unfit for modern industrial uses. They do, however, perform a function of providing cheap space for small local occupiers who are unable to afford modern units.

3.64 The M65 corridor is a key driver for larger and more modern industrial and logistics occupiers. Key industrial and logistics parks include as Shuttleworth Mead, Network 65, Whitebirk Industrial Estate (which is identified for investment in its growth as an important sub regional site) and Altham Business and Industrial Park. These parks provide a range of modern and more dated accommodation and generally have provided popular with occupiers.

3.65 The aviation industry is a significant contributor to the East Lancashire economy. Whilst BAE and other large employers operate through Lancashire, the East Lancashire sub region has a cluster of skilled manufacturing firms who operate as part of the aeronautical industries supply chain. These include firms such as Rolls Royce, Aircelle, Euravia and MB Aerospace. These companies are located around key local centres such as Accrington, Bacup, Barnoldswick, Burnley, Colne, Nelson and Rawtenstall.

3.66 In addition to the above, there is a plan to open up over 60 acres of land at BAE's Samlesbury site. BAE already manufacture parts for the Typhoon Eurofighter on the site but also plan to invest 100million in 20 acres to facilitate the production of the new Joint Strike Aircraft. BAE, in partnership with the NWDA, are also investigating the potential to create a new, Regional Aerospace Business Park. Both BAE and the NWDA have signed a memorandum of understanding to support the development of a "centre of excellence" which will help focus future investment and to sustain and increase the current skills base within the region. The NWDA have also investigated the possibility of funding a new Advanced Manufacturing Park at Burnley, which it is hoped could operate as part of the supply chain in aeronautical design, similar to Waverley AMP in Sheffield/ Rotherham, which has attracted occupiers such as Boeing.

Cumbria

3.67 The Cumbrian Industrial market is highly localised, particularly within the west of the district. Towards the east and close to the M6 motorway, Kingmoor Park in Carlisle is the key industrial park within the county and one of the largest in the North West. The park extends to approximately 400 acres and has in the region of 2million sq.ft of B1, B2 and B8 units, with the majority focused around industrial and distribution. The Park is managed in a JV between the public sector (including NWDA Cumbria Vision) and the private sector. Units range in size from 1,500sq.ft to approximately 88,000sq.ft. The site benefits from good access to Junction 44 of the M6 and plans to construct the new Carlisle Northern Development Route through the park will boost its image. There are a wide range of units currently available on the site and the recent relocation of Eddie Stobart to Carlisle Airport means that there are a number of larger distribution units available.

3.68 Within the western parts of Cumbria, the key industrial location is the Lillyhall Industrial Estate located close to Workington on the A585. The Business Park extends to approximately 50Ha and predominantly consists of industrial with occupiers such as Eddie Stobart, although there are other B1 office uses within the site and Energus (Nuclear Academy) have training facilities and workshops under construction. As the largest employment area within West Cumbria, the site has benefited from public sector intervention to help bring development forward in a challenging sub regional marketplace. The quality of units within the site range from good to low quality. The closure of the Alcan plant on the site has generated interest for higher value, alternative uses, which could negatively impact on the ability of the site to continue to act as the major employment location within West Cumbria.

Industrial & Distribution North West Summary

3.69 The main findings of this North West industrial and distribution market review are:

- Focus on prime locations, major urban areas, major motorway routes
- Trafford Park remains the regions premier location with the regions prime rents being achieved here
- Multimodal centres - Rail, road and port centric are becoming more attractive locations
- Continued focus on Green agenda
- Size ranges – 20-50,000 sq ft and 200-300,000 sq ft will do well whilst smaller units continue to be attractive in local markets
- Limited freehold market at present due to current lending restraints
- Lack of speculative development
- Increased availability of second hand stock across the region
- Continued pressure on older cheap stock from high value uses.

Office Market Overview

National Picture

3.70 As with the industrial market the office sector has suffered over the last 12 months but has generally performed better than in 2008. The slow down has been showing signs of recovery with lettings and enquiries generally picking up across the UK.

3.71 Despite this the market continues to challenge and remains very much the tenant's domain with the most attractive rents and in particular incentives for many years. Central London is leading the recovery and this is likely to create a wider gap between the regions and the capital.

3.72 The outcome of the general election and the cost cutting exercises throughout the public sector will have a massive impact on the regions. Many developments in the regions have been supported by public sector demand for new space. As the cost cutting continues and is predicted to worsen throughout 2010 this demand will diminish making new office developments in the regions less attractive. However there will be some winners with public sector relocations out of London expected to continue as part of this cost cutting, centres around the North West, Midlands and South West are likely to benefit the most.

3.73 Availability of office property has generally increased across the UK over the last 12 months. This is generally the impact of new developments that started within the last 2 years completing and second hand stock becoming available as companies downsize or close down as a result of the credit crunch.

3.74 There is expected to be a return to speculative development in the Capital during 2010 although there are no signs as yet that this will happen in the regions. However as occupiers seek the best terms there could be pre-lets that encourage developers to start developing again within key centres in the regions. The banking crisis however continues to threaten development and the scarce availability of finance on reasonable terms means that in some areas even pre-let development will be difficult.

3.75 Over the longer term the threats are a shortage of supply due to the restraints on the development market over the last few years. The supply of Grade A stock, particularly in the regions will be strained and there is currently no sign of a return to speculative development that will be needed to resolve this issue. There is also the impact that the green agenda will have on development to be considered as more and more occupiers are requiring Carbon

Neutral, BREEAM excellent buildings. This not only puts pressures on developers to keep up to date with the ever changing regulations but increases the costs of development at a time when many developers will be looking for cost cutting opportunities. The balance between the two agenda's is difficult to predict but it is likely that over time green issues will come out on top.

Greater Manchester

3.76 The metropolitan area of Manchester is one of the UK's largest urban areas, second only to London in terms of size and importance, and has a large and healthy economy. Manchester has a wide variety of significant employers from most professional and business service sectors. Companies of particular note include the Royal Bank of Scotland, who occupy a large amount of space at the Spinningfields development, and Co-op Financial Services, who have their head quarters based in the city. Alongside its very large private sector, Manchester is also home to a variety of public services, ranging from the 10 Metropolitan Councils that form Greater Manchester, the Inland Revenue and HM Customs and Excise.

3.77 In Manchester City Centre the Coop has started the development of their new 325,000 sq.ft headquarters development on land adjoining their existing buildings near Victoria Station. Other key developments in the pipeline include a proposal for a major new public sector led development dubbed the Whitehall of the North at Mayfield and the City Council's temporary relocation to First Street while the Town Hall is redeveloped. Spinningfields, the areas new financial and professional services sector has suffered during the downturn but plans are afoot to continue development as developers Allied London and the City Council recently came to an arrangement about their development agreement on the site that will see the remaining two plots start on site by 2015, in fact Allied London are expected to start the first building in 2011.

3.78 Development activity in Manchester has increased significantly in recent years; indeed, 2007 saw a particularly high level of completions - the second highest level seen in the market, eclipsed only by 1992. However, in contrast to 1992, when a huge amount of space was built out of town, the vast majority of space completed since 2007 has been located in the City Centre. 2007 was a record year in terms of volume of space built, most of which being pre-let. Continuing this trend, 2008 also saw high volumes of completions located within the City Centre market. However, unlike 2007 where the majority was pre-let, the proportion of speculative space rose considerably, reaching around double that of 2007 at end-year.

3.79 Availability in Manchester has risen significantly in Manchester in recent years 2008 saw a record 900,000 sq ft of grade A accommodation released to the market. Although this fell back in 2009, a further 700,000 sq ft was completed by the end of the year. This includes: First

Street (180,000 sq ft); Peninsular (148,000 sq ft); 1 New York Street (110,000 sq ft) and Vantage Point (53,000 sq ft).

3.80 This unprecedented level of development within the City Centre over the past two years has led to approximately 950,000 sq ft of grade A accommodation available in the market. Based upon historic take-up levels, represents approximately three year supply.

3.81 A significant amount of space has been released back into the market due to corporate relocations and downsizing. This includes 45,000 sq ft by Halliwells, 30,000 sq ft by Cobbetts, 32,000 sq ft by Guardian Media Group and 24,000 sq ft by HBOS

3.82 The speculative development and released stock means that almost there is now circa three years supply of Grade A vacant space in Manchester City Centre. There are currently no new speculative developments planned in the City Centre and it is unlikely this will start again in the short term while there is such a significant supply of Grade A stock.

3.83 There however a number of significant sites in the City Centre that are available for future development, including Greengate Embankment, Victoria Station, Granada, BBC's Oxford Road campus and the former Boddington's Brewery, which should prevent a shortage of available grade A space in the longer term.

3.84 In contrast to Manchester City centre, where employment is much more focused on the Financial and Business Services Sector, the other markets of Manchester including, South Manchester, Salford Quays and the other town centres in the Metropolitan Boroughs of Greater Manchester have a wider variety of key employers, ranging from blue chip private sector firms to a large public sector provision.

3.85 Some of the most important economic drivers outside Manchester City Centre are the University of Manchester, Manchester Metropolitan University, the University of Salford and Manchester Airport. The presence of the airport has led to a large number of spin-off firms being attracted to the area, notably major airline operators and air related companies. These companies have located all over South Manchester in areas such as Stockport and Didsbury. Proximity to the airport is also an important factor for a range of businesses, particularly those with direct links such as distribution and the airport supply chain, and potentially inward investors. The limited availability of sites close to the airport may partly explain why such businesses have located across South Manchester and could provide some rationale for a cluster activities requiring or desiring proximity to the airport.

3.86 Typically smaller deals epitomise the Manchester out of town market and therefore much of the market churn is characterised by deals of below 20,000 sq ft.

3.87 The BBC decided to relocate five departments, including BBC Sport, Children's BBC and Radio 5, from London to the Media City scheme at Salford Quays. A 330,000 sq ft pre-let for office/creative space was agreed in 2007 resulting in the highest annual take up witnessed since 2000. The Media City development is of an unprecedented scale and is likely to result in new media industries locating in the area to take advantage of the studio space and links to the BBC.

3.88 It is hoped that regeneration will also occur to the north-east of Manchester around Newton Heath, as Greater Manchester Police have opted for two large pre-lets at Central Park. GMP agreed 240,000 sq ft to house their Force HQ in 2009, before taking an additional 125,000 sq ft in 2010 which will act as a divisional HQ. Central Park is likely to become a more attractive location when the metro line is finally opened in 2011/2012.

3.89 Manchester Science Park was established over twenty years ago, located close to the university site in order to capitalise on the links between companies at the park and the academic research being undertaken at its neighbouring institutions. Interestingly, plans are in place to double its size over the next 10 years as it plans to build on its links to the University. This site is on the edge of Manchester City centre but is an out of town scheme.

3.90 Outside Manchester, Salford, Trafford and Stockport development is in the main aimed at the local markets. The exception being the Kingsway development in Rochdale. Bury Council have recently moved into a new development by Ask Developments called Knowsley Place in Bury Town Centre. This scheme is anchored by the Council and the PCT and highlights the dependence that towns like Bury have on Public Sector Development. There is no regionally significant office market in Bury, Bolton, Wigan, Oldham, Ashton and all these markets are characterised in the main by local occupiers and small office buildings.

Merseyside

3.91 Merseyside's office market is centred on the region's second biggest city Liverpool. A total of 519,274 sq ft of office space was let in Liverpool's Central Business District in 2009. This compares to 245,289 sq ft in 2008 and is higher than any year since 2005. The Public Sector was responsible for this having completed the two largest deals which accounted for 72.9% of annual take-up. Merseyrail signed a pre-let for a 30 year lease for 140,000 sq ft at Mann Island and this was one of the largest deals to complete in the Liverpool market for a decade.

The other deal was to the UK Borders Agency who signed for 220,000 sq ft of second-hand space at The Capital, Old Hall Street.

3.92 During the year, there were just 2 further deals (totalling 5,200 sq ft) for grade A space. These both took place at 20 Chapel Street where Jackson's Accountants signed for 3,200 sq ft and Finch Design took 2,000 sq ft. Overall, take-up of Grade A space was at a record high for the year, and totalled 166,772 sq ft (although this was largely due to the Merseyrail deal). This compares to just 7,000 sq ft in 2008 (which was a record low for the City).

3.93 In terms of grade B space, take-up in 2009 totalled 352,502 sq ft which was an improvement on 237,000 sq ft in 2008. Notwithstanding this, there was a marked reduction in the number of transactions. In 2008 there were a total of 64 Grade B office transactions, but in 2009 this figure fell to just 37.

3.94 There are a number of requirements in the market and should some translate into lettings in 2010. Weightmans Solicitors, Mace and Jones and the Legal Services Commission are all said to be in the market.

3.95 The supply of Grade A office space in the City Centre now stands at 178,052 sq ft, down from 221,944 sq ft in 2008. With little or no construction taking place, this fall in supply was inevitable and will create a shortage of supply of grade A space similar to that which is predicted in Manchester.

3.96 The vacancy rate for the City presently stands at approximately 1.85 million sq ft, or 26.1% of total office stock (if Grade C space is included). This compares to a vacancy rate of 22.5% in 2008. Although availability is high, the volume of grade A space remains comparatively low at 178,052 sq ft (9.6% of total supply). Supply is dominated by lesser quality stock, with Grade B space totalling 773,177sq ft, and Grade C totalling 896,636 sq ft.

3.97 2009 was a poor year for the out-of-town office market in Merseyside with take-up down by 40.8% on 2008. Knowsley was the strongest performer with the business parks performing almost as well as in previous years. The same could not be said about South Liverpool and Wavertree where take-up was down. Circa 40% of the out of town office market was taken up by the public sector with no other sector having any significant take-up. This is a worry moving forward as public sector cuts will reduce the demand for new space in this sector.

3.98 Looking forward the constraints on the delivery of Grade A offices in the City Centre supply mean the City Centre will continue to struggle and there is unlikely to be any speculative development in the short term. The supply of readily available space in the out of town areas suggests that there should be some improvement in this sector, particularly as the market conditions mean that landlords are prepared to offer significant incentives to attract new occupiers.

3.99 There is potential for new development outside the town centre on Edge Lane as high technology users take advantage of significant investment in the area.

Cheshire & Warrington

3.100 Cheshire, like the rest of the country, does however face uncertain economic times with the impact of the credit crunch and the increasing difficulties in financing property transactions and development. Despite this, it remains an affluent area within the regional economy, benefiting from the economic growth of Manchester and Liverpool and its attractiveness as a place to live and work.

Cheshire West & Chester

3.101 Offices have been the most active market sector over recent years, with a particular focus around Chester, where a number of high profile schemes are being developed, and Northwich, which plays an important out of town role.

3.102 Chester is the key centre within Cheshire West and the market here is concentrated into two distinct sectors – the city centre and out of town business parks such as Chester Business Park. Following limited office development over many years, a number of city centre office schemes are now planned or underway, in particular:

- Castle Gateway – Liberty Properties built the HQ scheme, a 350,000sq.ft mixed use development on the former site of the Cheshire Constabulary headquarters. The scheme provides 65,000sq.ft office space alongside an Abode hotel and luxury apartments
- Gorse Stacks – Barlow's mixed use scheme, being developed by Barlows on the site of the former Delamere Street bus station, comprises offices, retail and residential apartments across a number of connecting sites extending to over 5.5 acres
- Chester Station Quarter – The regeneration of the Station has included the refurbishment of derelict offices and opportunities exist for further commercial development in the surrounding area
- Old Port – Regeneration of 12 acres of derelict and underused land in Chester's Old Port, to include the refurbishment of railway arches for a mix of new commercial, leisure and tourism uses.

- Cheshire West & Chester Council is developing the Chester Central Development Framework to deliver the Chester Central Business Quarter.

3.103 Chester Business Park, just one mile from the city centre, is one of the largest out of town business park in the region and home to high profile occupiers such as M&S Financial Services, MBNA and Bristol-Myers Squibb. The business park is currently at capacity and options are being considered for further development on the edge of Chester in North Wales, this will provide competition for the new proposals in Chester City Centre.

3.104 Ellesmere Port benefits from excellent access to the motorway network. Significant progress has been made in the development of Ellesmere Port's employment areas over recent years, with several new office and light industrial as well as distribution schemes coming forward:

- Pioneer Park – Peel's 87 acre masterplan for Pioneer Park is progressing. Evans Easyspace has developed a business centre here with 23 offices and 18 workshops. At Pioneer Business Park, the first phase of office accommodation comprises 4 units totalling 15,000sq.ft and the second phase comprises serviced offices.
- The distribution sector is also provided for by Pioneer 210 and Pioneer Point, the latter of which is the largest distribution centre in the region
- Newbridge Road – Elm Court, off Junction 10 of the M53 on Newbridge Road, was the first of several speculative developments by Northern Trust providing 31,000sq.ft of small scale workshop space.
- At New Port Business Park, the Council's Quay 1 development was the first phase comprising seven industrial/office units and a further 20 acres of industrial land is available
- Rossmore Business Village – Completed in 2006, Rossmore Business Village provided 21 self contained small scale office units
- The Oaks Office Park – Located close to Junction 10 of the M53, this development comprises four self-contained two storey office buildings
- Oaklands, Hooton – Carillion's Oaklands development sits within an established office park with a rural location offering high quality office space. Phase 2 provides seven office units and planning permission has been granted for Phase 3, to provide D&B opportunities of up to 40,000sq.ft
- Canalside Business Village and Trade Centre – A recent development of light industrial/ warehouse/trade units off Junction 9 of the M53 with further phases proposed.

3.105 It should be noted that many of these developments benefited from gap funding from ERDF and the NWDA which comes to an end this year. This may prove to be a challenge given the current economic downturn.

3.106 Outside of Chester and Ellesmere Port Cheshire West and Chester's market is mainly based in out of town locations with good accessibility to the M6 and M56. Property market activity is focused primarily in the main towns of Northwich and Winsford.

3.107 The property market in Northwich is dominated by the 160 acre Gadbrook Park, close to Junction 19 of the M6. Development has continued over recent years with schemes such as Royal Court, Royal Mews and Brunel Court. Northwich is also the location of Lostock Triangle, a scheme that is expected to create over 500,000sq.ft office space.

3.108 Winsford's property market is in the main aimed at a more local market although it has attracted significant sub-regional interest over recent years, including the headquarters of Cheshire's Police and Fire services.

Cheshire East

3.109 The office market in Cheshire East is in the main dominated by local occupiers. The key towns of Macclesfield, Wilmslow, Knutsford, Congleton, Sandbach and Crewe have no regionally significant office markets.

3.110 Macclesfield and Wilmslow do benefit from proximity to the main east coast rail line to London. Schemes such as Stanley Green Business Park and Tythrington Business Village have proved successful in this location they are not considered regionally significant.

3.111 The 400 acre Astra Zeneca research facility at Alderley Park is a world leading pharmaceutical research centre. It is located in the green belt on the northern edge of Macclesfield. The buildings and infrastructure are to world class standards, with associated support facilities including analytical services, sample storage, libraries, restaurants and sports. AZ no longer requires the use of the current space; in particular a 30,000sq.m single building formerly used for toxicology research. AZ are interested in offering this space to other businesses in the biohealth sector (including pharma), including access to the support services on site, in order that they can benefit from the science (via knowledge exchange) and retain control/ use of the building. There is thus the opportunity to work with AZ to quickly create a multi-user biohealth science park in existing buildings on this site and thus strengthen the South Manchester biohealth cluster

Warrington

3.112 Warrington is a metropolitan authority on the edge of Cheshire. It is the area's premier office location with established out of town locations such as Birchwood Park, Centre Park and Lingley Mere dominating the market. The town centre does not have a major office market.

3.113 The office market in Warrington had one of the worst performing years on record in 2009 and this was particularly evident when you consider that over half the total take up was one deal by The Home Office. Take-up was 240,000sq.ft which is slightly higher than the average over the last 12 years[13]. The deal at Birchwood comprised the occupation of the 54,000sq.ft former Cable and Wireless building and a pre-let on a further 107,600sq.ft to be built as an extension alongside it.

3.114 Birchwood continues to be the premier location in Warrington. The Home Office relocation meant that Birchwood led the way in the Borough and 2009 saw the highest take up in Birchwood on record showing that despite low take up else-where in the Borough one significant deal had a major impact on the take-up figures. Almost 90% of all the office floorspace occupied in Warrington last year was at Birchwood Park.

3.115 Warrington town centre struggles to compete with the out of town location at Birchwood and this is unlikely to change whilst development opportunities are limited and accessibility issues put off prospective occupiers.

3.116 Omega is one of the longest running opportunities in Warrington that has so far struggled to be delivered because of delays in planning and the subsequent decline in the market. Omega Warrington a Joint Venture between Miller Developments, RBS and the HCA are reviewing the masterplan and it is difficult to predict what this will look like. However there has to be an assumption that a site of 575 acres could still provide a significant amount of employment space and its location on the M62 should mean that it remains attractive. Lingley Mere the headquarters of United Utilities has been successful in attracting occupiers to the area on the site UU have developed with Muse Developments.

Lancashire

3.117 The premier office location in Lancashire is Preston. The market as a whole is dominated by dated office stock and public sector occupiers.

3.118 In Preston city centre demand for office space has been limited by the lack of supply, particularly at the top of the market. However, out of town locations have historically

[13] Warrington Property Market Review, 2010

performed well, reflecting the attraction of the location, access to workforce and the quality of strategic infrastructure - rail, air and road.

3.119 Preston remains the administrative headquarters of Lancashire. There are currently big questions over the future of the Tithebarn development but should this go ahead it could require relocation of circa 150,000 sq ft of office space. Whilst there is no guarantee at least some of these occupiers would need new space.

3.120 The City's thriving University presents opportunities for a local office market. This might be directly in terms of space requirements but also in research and hi-tech learning/business facilities that want to be close to the University. Serviced offices also are often keen to take advantage of this key sector in the market. On the edge of Preston City Centre close to the motorway schemes such as South Rings Business Park and Bamber Bridge have proved to be successful developments.

3.121 Outside Preston areas such as Chorley & Leyland have seen projects such as the Buckshaw Village and Matrix Park which during a relatively short period of 3-4 years has created around 90,000 sq ft of office accommodation. The Buckshaw Village site in particular was expected to be successful and with some 28 acres allocated for around 350,000 sq ft of offices, with adjoining mixed retail and commercial facilities, the site provides long term opportunities even if development has currently stalled due to the market.

3.122 There are plans for the creation of a new Office Quarter in Preston which seeks to persuade companies wishing to expand or relocate to the area to occupy accommodation within the city centre core. For this to be a success it is likely to require a major occupier from either the public sector or private sector to take a large amount of space to get a scheme started. It is unlikely in the current climate that this will happen but we do envisage some investment in the town in the longer term.

3.123 When looking at the office market in North Lancashire the key area to consider is Lancaster. The majority of office stock within these areas does not lie within the identified city and town centres. According to a recent study undertaken on behalf of Lancashire County Council, only 10.4% of the district's total office stock lies within the identified centres of Lancaster, Morecambe and Carnforth, although this is misleading due to the tight definition of the relevant centres around the retail core. In recent years, new development has been focused on key strategic sites within the district, in particular at sites such as Lancaster Business Park and on existing estates such as White Cross. Developments such as these show the historic preference of developers to provide purpose built accommodation. In comparison, the city centre market within Lancaster has been primarily made up of dated stock which is periodically refurbished.

3.124 One of the key reasons for the lack of new stock within the city centre has been historic problems with achievable rental values. At present, refurbished office stock within Lancaster City Centre is available for rents in the region of £9-10/sq.ft. At these rental levels, high density city centre office development is not viable, requiring achievable values of circa. £14-15/sq.ft, which have only been possible in locations such as Lancaster Business Park. However, in the last 3-4 years, requirements for occupiers have focused more around the attraction and retention of qualified staff. This often means locating within areas which are accessible and have a wide range of leisure and recreational facilities. This has led to occupiers looking to more established centres and recent developments/proposals include:

- 80,000 sq.ft of offices as part of a mixed use scheme at Luneside East;
- Persimmon is currently marketing 5,750 sq.ft of offices as part of their Aalborg Place development, with a quoted rent of £14/sq.ft;
- Plans for the redevelopment of the Gateway House site for 30,000 sq.ft. Development should have already commenced, however, we understand that the owner has acquired an adjacent property and is revising their plans to incorporate a wider mixed use scheme;
- Conversion of former Masonic Hall to provide 10,000 sq.ft of office space
- New Build offices at Citylab, Dalton Square, providing managed workspace. Quoted rents of £11/sq.ft;
- Existing planning permission for mixed use development, including offices at Luneside West;
- North Lancashire Primary Care Trust has taken over 30,000 sq.ft of space at the former Reebok HQ at Moor Lane Mills.

3.125 Outside of Lancaster City Centre, the majority of new office development is taking place around Lancaster Business Park. Located off Junction 34 of the M6, the business park originally attracted occupiers due to its proximity to the M6 and the availability of new accommodation on a design and build basis. However, some of the agents that we have spoken to have expressed the opinion that the Business Park has begun to struggle recently, with occupiers looking for space closer to the city centre and its facilities. Quoted rents for the business park range between £14-15/sq.ft.

3.126 Lancaster University has also been involved in the construction of new office/workspace. Infolab21 provides a range of offices between 230 and 900 sq.ft for businesses operating in the ICT sector and who would be able to link up with researchers and staff at the university. Facilities include high speed broadband, café, meeting rooms and car parking.

3.127 The market in Lancaster needs to create stronger links with the University and there have been numerous proposals for office development close to the university. As with all development in this part of Lancashire the rents that are achievable make viability a real issue and while yields continue to be high it is unlikely developers will be keen to develop without public sector support.

3.128 On the Fylde Coast there is no regionally significant office market. In Blackpool the office market over recent years has generally been focused in three out of town locations – Whitehills Business Park, Blackpool Business Park and Blackpool Technology Park. Within the town centre, office stock is generally made up of dated office conversions. Muse developments are currently developing the Talbot Gateway scheme. The development comprises new offices for Blackpool council with adjacent multi storey car park, a new magistrates court, new Divisional Headquarters for the Police and a library. In a similar way that Ask have developed a high quality office scheme in Bury with support

3.129 Blackburn is the key centre within the Pennine Lancashire sub-region. Whilst traditionally it has been viewed as isolated from key regional centres such as Manchester and Preston, the opening of the M65 motorway linking Blackburn to the M6 has opened the town to increased opportunities for economic development.

3.130 Blackburn's town centre office market is limited and is not regionally significant at present. This is down to the success of Blackburn's out of town locations which have been driven by two key factors – the accessibility provided by the M65 and the lack of modern office accommodation within the town centre. New office development in the town centre has been constrained over the years by the historic nature of many of the buildings and the lack of suitable sites. The only notable office development activity in the town centre over recent years has been the 50,000sq.ft Capita Blackburn Business Centre, which was occupied by Capita Financial Services.

3.131 However, it is the M65 corridor that dominates that out of town market. The opening of the M65 has been the key driver of Blackburn's commercial property market over recent years and a number of employment locations have emerged as a result, providing Blackburn within an increasing amount of office and industrial/warehousing provision.

3.132 At Junction 4, Blackburn Interchange has been developed with high quality industrial/warehousing and offices alongside motorway services and a hotel. Axis Park is a new office and business park situated adjacent to Junction 4.

3.133 At Junction 5, the 62 acre Shadsworth Business Park has been developed out over the last 7 years with office and hybrid premises and is now almost fully developed. Also close to Junction 5 is Evolution Park, a new Medi-Park development by St. Modwen with capacity for up to 250,000sq.ft of business, light industrial and research space close to the newly expanded Royal Blackburn Hospital and focusing on the medical, knowledge, science and technology centres. The first phase of development includes Fusion Park, which provides 17,332sq.ft at the park's gateway, and The Innovation Centre, which provides 30,000sq.ft of managed workspace from 90sq.ft to 2,000sq.ft. Phases 2 to 5 are available by design and build development ranging from 20,000sq.ft to 100,000sq.ft.

3.134 Centurion Park is an established commercial area close to Junction 5 of the M65 and including the recently developed Mead Court, a 3 storey purpose built business centre. Mead Court saw the majority of the M65 corridor's office deals in recent times.

3.135 At Junction 6, Greenbank Technology Park is one of Blackburn's prime business locations providing modern office space such as that at Challenge House. It is home to the Blackburn Technology Management Centre, which offers managed workspace (office and industrial) for small high tech businesses, and the Saturn Centre, which also provides managed workspace for small high tech businesses alongside an ICT Centre of Excellence. Also located at Greenbank is Capricorn Business Park, a scheme by RCT Developments providing six 2-storey, self contained offices totalling 4,000sq.ft.

3.136 Also at Junction 6, local developers Barnfield Construction have completed the Trident Park development of offices and car showrooms whilst Blackburn Gateway is a new business centre providing small scale office space on a weekly basis.

3.137 Burnley's market is similar to Blackburn's characterised by the dominance of the out of town market with limited opportunities in the town centre. Schemes such as Network 65 and Burnley Business Centre highlight the town's reliance on the out of town market to provide high quality office space.

Cumbria

3.138 The office market in Cumbria is in the main characterised by local demand and local companies. The main exception to this is Westlakes Science Park which provides office space for nuclear energy industries. West Cumbria has already made great progress in developing its knowledge economy and now benefits from some significant assets. In addition to Westlakes itself, these include Sellafield, the National Nuclear Laboratory, Westlakes Research Institute, Energus, the proposed Dalton Institute and the University of Cumbria.

3.139 Westlakes currently has fully serviced plots of land totalling over 500,000sq.ft immediately available for development, with plot sizes ranging from 34,000sq.ft to 170,000sq.ft all with outline planning permission for B1 offices and laboratories or B1/B2 manufacturing. A further area of expansion land has been identified on adjoining agricultural land to deal with additional expansion in the longer term.

3.140 The long term future of the coastal area depends a lot on political decisions regarding the nuclear industry. At present these appear favourable and construction could start as early as 2014/15 on new nuclear power stations with West Cumbria well suited to this type of development.

3.141 There could be 4-5,000 people employed in the construction of a new station for perhaps 5 years and, whilst the majority of these will be temporary construction jobs, there is also likely to be a need for the company running the facility to have an off-site office base for potentially several hundred employees (although it is not yet clear how many staff would need to be based locally and how many could be based at existing locations such as Coventry in the case of Eon or Swindon in the case of RWE or at another new build site elsewhere). There will then be 500-1,000 permanent operational jobs based at the power station. There will also be a requirement for significant national grid connectivity infrastructure, which will be a major construction exercise.

3.142 With each nuclear reactor costing around £3 billion, a power station with 2 to 3 reactors can cost up to £10 billion to construct. There is, therefore, significant potential for supply chain activity. Some suppliers will already be located in the area, but there is likely to be an influx of other suppliers to service the new build contracts. It should be noted, however, that the design work will not necessarily need to be undertaken in West Cumbria (it could probably be undertaken in other locations to a greater extent than is the case for decommissioning work) and is probably just as likely to take place at locations such as Warrington or at Springfields near Preston.

3.143 Away from the Coast and the nuclear industry demand is in the main from local occupiers and the public sector. Kingmoor Park is one exception to this and given its strategic location adjoining the M6 at Carlisle it is expected that this site will remain successful with demand from national and regional firms looking for a base to serve the north of England and Scotland.

3.144 Cumbria as a whole suffers from the same issues as elsewhere in the region, with low rents and high yields meaning there is unlikely to be speculative development in the short to medium term.

Offices - North West Summary

3.145 The overview above provides an assessment of the most regionally important office locations. There are both city and town centre sites and out of town locations within the key office locations in the region. There is no definitive answer as to which type of location is most likely to succeed or will have the greatest demand as it is locational specific. In the North West Birchwood and South Manchester are the two major out of town office locations and there is every indication that they will remain attractive as companies take advantage of better accessibility and car parking ratio's that come with this type of location. In the last 12 months the majority of activity in the out of town market was by the public sector. Deals at Central Park and Birchwood saw significant public sector investment in the out of town market.

3.146 There are indications that there will be growth sectors that tend to locate in out-of-town locations, sectors such as advanced engineering, pharmaceuticals, telecoms, IT, media and environmental businesses. It is unlikely that these businesses will look towards town and city centre locations and therefore there will remain a need for good out-of-town locations. There have however been no significant new out of town developments in the last 18 months across the North West and it is likely that this will create short term supply issues.

3.147 Manchester remains the regions premier city centre office location. This is dominated by the financial and professional services sector and the public sector. Outside Manchester development has in the main been restricted to public sector led or funded schemes over recent years. It is unlikely that this will continue given the current economic climate and as such, away from key office locations such as Manchester City Centre, Liverpool City Centre and to a lesser extent Preston and Chester City Centres, activity will be restricted to local market activity.

3.148 The main findings of this North West office market review are:

- Manchester continues to be the region's prime office location with Liverpool the other main centre. Chester Business Park is another key location.
- A lack of speculative development in the short term will create a supply concern in the medium term all over the region.
- Whilst speculative development may return to the Manchester, Warrington & Liverpool markets in the next 2 to 3 years it is expected to take much longer elsewhere in the region

- Increased availability across the region
- Outside Manchester City Centre, Liverpool, Birchwood and Chester Business Park the region's office market is dominated by the public sector and costs cutting measures in the short term in this sector could create real issues in the secondary market areas.
- Planning Policy is making out of centre office development more difficult to promote and as such developers are reluctant to take risks on proposals without Council support.
- There are many proposals for new business locations in cities such as Preston and Chester but without pre-lets to large occupiers or public sector incentives they are unlikely to prove successful.
- The positive side of public sector cost cutting could see Manchester and other parts of the North West benefitting from relocations out of London. There may also be opportunities in other town centres from the total place agenda which could see local authorities and other public bodies collocating to save costs.
- Continued focus on Green agenda and the achievability of BREEAM excellent ratings on buildings.

The Creative and Digital Media Sector in the North West

3.149 The Creative industries cover a very wide range of activities including: advertising, architecture, arts and antiques, video/ film/ photography, music/ visual/ performing arts, publishing, software/ computer games and electronic publishing as well as radio and TV. Areas in Manchester and Liverpool have been identified as important assets for the creative industries in the north west.

3.150 The North West of England has the second largest creative hub in the UK and Europe, second behind only London and the South East. There are 31,000 businesses in the region within the digital and creative sector generating £15.8billion per annum in GVA.

3.151 There is a bias towards Manchester and Liverpool in terms of this sector, with representation from international firms such as Sony and IBM and smaller national and niche software and media development companies. The identification and development of MediaCity:UK at Salford Quays as a major new location for the BBC and a key Creative Media Hub means that this bias has grown even further.

Renewable Energy Market

3.152 In understanding the land needs for Renewable Energy options, it will need to be identified where competing demand for land will be, where there are opportunities to integrate

Renewable Energy with other land uses and whether land requirements could potentially threaten and/ or constrain the development or protection of land.

3.153 The options with the largest land requirements are biomass plants (CHP and boilers) and large wind energy developments. Biomass plants require land for both growing biomass plants and for infrastructure-scale plants. Land for growing biomass plants would require particular soil conditions and would generally be situated on agricultural land. The plant themselves would require land for buildings, pumps, controls and fuel storage. Infrastructure-scale wind developments also require significant amounts of land, particularly when developments include a large number of turbines. In contrast to requirements to grow biomass plants, development of wind turbines does not necessarily preclude the land from being used for other purposes. Whilst there are relatively limited opportunities to use this land due to constraints such as noise and safety, this opportunity should not be ruled out.

3.154 Gas CHP plants only require the land for the plant itself, which is significantly smaller area than other infrastructure options. Ground source heat pumps will be incorporated in the building footprint, but the linking boreholes will impose some limitations on future land uses.

Facilities for Offshore Renewable Energy

3.155 A survey undertaken by Envirolink Northwest identifies that the environmental sector is one of the fastest growing market areas because of the abundance of renewable energy generating resources and that the coastline provides an excellent test-bed for the next generation of wind, wave and tidal technologies.

3.156 The report states that the North West’s historic role as an industrial base for world ship building means that the region has excellent facilities, particularly in Birkenhead and Liverpool. Each port has flexible engineering works and a skilled workforce that could play a large part in the next round of renewable offshore projects, able to support companies and industries interested in offshore energy generation.

3.157 It identifies that the port has extensive experience in servicing and supporting offshore industries and there is an excellent local skills base that has grown up around companies such as Northwestern Shiprepairers and Shipbuilders ltd.

3.158 A further report for the NWDA by BVG Associates has highlighted the potential importance of the sector to the North West. This report suggests that the major investment by manufacturers and developments will take place on the East Coast, away from the region.

3.159 In spite of this, the North West has access to a substantial offshore wind market, suitable port facilities available and a skilled, low-cost workforce that should be able to maximise its opportunities and generate large numbers of jobs in key areas if action is taken quickly. Workington, Barrow and Birkenhead are highlighted as opportunities. Whilst the opportunities may not be as significant as they are in the North East, there may be unrealised potential for one major site focussed on offshore wind turbine construction in the region. The number of sites is likely to be limited. Further work may be required to understand how the opportunities can be realised.

3.160 Whilst it is an important and expanding sector in the global economy, it is unlikely to be a major driver for the portfolio of strategic sites.

3.1 Summary and Conclusions

1. Distribution & Industrial

- Retailers and internet distributors driving demand across the North West which is highlighted by 2009's biggest deal by B&M Bargains in Speke
- Waste & recycling has seen a rise in demand and is seen as a major growth sector
- Availability up across the region as a result of the credit crunch with Greater Manchester and Merseyside proving to be the only exceptions.
- Trafford Park maintains its position as the prime location for industrial occupiers
- Manchester Airport is the 4th biggest freight terminal in UK but 28% drop in the amount of freight during 2009. Distributors want proximity to the airport but have struggled to find available sites.
- In Merseyside there have been significant transactions at Ellesmere Port and the Estuary, Speke in the logistics sector.
- Warrington saw the lowest take-up of industrial and distribution space on record in 2009.
- There were two large distribution transactions at Manor Park in Halton and Winwick Quay in Warrington.
- Lancashire distribution market is focused around the M6 and M65 corridors, areas such as the Fylde Coast are seen as too isolated for this type of use.
- Pennine Lancashire has a cluster of aerospace related industry and there could be growth in this sector.
- Kingmoor is a key industrial and distribution site in Carlisle.
- Lillyhall and West Lakes are the major employment locations within West Cumbria benefitting from the expected growth in the nuclear industry.

To conclude there is continuing demand for distribution and logistics facilities despite the recession with significant distribution demand on Merseyside and in Halton. Trafford Park remains the premier industrial estate in the region and the availability of land around Manchester Airport has restricted opportunities. It is anticipated that the Waste and Recycling agenda will continue to mean demand in this sector although this is unlikely to be focused on regionally important sites.

2. Offices

- There has been heavy public sector dependence in past away from the key market areas in the region. This is unlikely to continue in most locations due to cost cutting agenda which will potentially restrict development in many of the regions town centres.
- Out of centre office development is also restricted due to the lack of funding and speculative development.
- Opportunities from public sector relocations confined to Liverpool, Manchester, Chester and possibly Preston. These locations will not only be competing with each other but other regions throughout the UK so it is unlikely that all these centres will be successful in attracting this investment.
- The Banking crisis means speculative development is unlikely across the region in the short term with any return limited to Manchester City Centre in the medium term.

Greater Manchester:

- Large private sector investment in recent years, notably RBS and Co-op investing in new premises in the City Centre. The Co-op are currently on site whilst RBS have been in their new headquarters for a couple of years. The recession has impacted upon the financial and professional services sector significantly and as such it is not expected that there will be significant new investment in the short term.
- There are strong claims for the public sector relocations to be located adjoining Piccadilly in the new Whitehall of the North at Mayfields
- Spinningfields demand suffered in downturn and floors of some buildings came back to the market as occupiers felt the impact of the recession on staff numbers
- There is a significant amount of vacant Grade A space in the centre (950,000 sq ft). It equates to 3 years supply as a result of unprecedented level of development in recent years. This will cater for demand in the short term but there are concerns over the supply in the medium term whilst developers are struggling to obtain funding.
- High public sector dependence outside city centre, e.g. GMP at Central Park.
- The South Manchester market has limited capacity for new development
- Media City will see further development and a growth in media related investment in Salford.
- The other towns in greater Manchester mainly cater for local office markets.

Merseyside:

- Strong dependence on the public sector market, e.g. Merseyrail, UK Borders Agency in Liverpool
- Approximately 180,000 sq ft of Grade A office space available in the City Centre but no new development planned at present
- The out of town market saw take-up fall by circa 40% in 2009.
- Potential for high technology users on Edge Lane and general office use by the airport

Cheshire & Warrington:

- Chester Business Park and Chester historically dependent on the financial services sector but hoping that investment in the town centre will attract other sectors to invest including the public sector
- Warrington had a poor 2009 with the City Centre recording the worst take-up on record. However at Birchwood the Home Office relocation ensured a strong year in

terms of take-up and it is expected that Birchwood will remain the areas premier location.

- Warrington town centre struggles to compete with Birchwood because of the congestion issues faced in the town centre.
- Plans are underway to amend the Omega Masterplan and as such it is unclear how this site will contribute to the long term future of the office market in Warrington.

Lancashire:

- There has been an historic shortage of supply for office space in Preston which has had an impact on demand. There are questions over Tithebarn scheme in the city centre which create uncertainty in the short term that won't help to resolve this issue.
- Outside the city centre there is expected to be some university related demand
- Lancaster has low rental values which mean high density office development not viable. Lancaster Business Park is struggling to attract investment.
- The public sector is leading the way with development in Blackpool with the Talbot Gateway scheme but in the main the Fylde Coast does not have a significant office market.
- In Pennine Lancashire most demand is along the M65 corridor. However in the main demand is from local users and there is no significant market in Burnley or Blackburn town centre.

Cumbria:

- Market characterised by local demand.
- West Lakes is the focus for investment related to the nuclear industry.
- Strong potential related to nuclear developments.

To conclude Manchester City Centre remains the regions premier office location and the most likely focus of inward investment should the market conditions improve. Media related development is likely to be a significant growth area in Salford as it sees the benefits of the BBC's relocation. Outside the City Centre we do not envisage significant growth in any of the other towns around Manchester although limited supply in South Manchester could benefit this area.

Liverpool has limited grade A office space and with no sign of development in the short term this could restrict inward investment opportunities. The out of town market has not performed strongly over the last 12 months and there are no signs of improvement in the short term. Birchwood and Chester Business Park remains the regions premier out of town locations. Warrington Town centre needs significant investment if it is to compete with Birchwood whilst there appear to be opportunities in Chester City Centre. Lancashire and Cumbria struggle to compete with other parts of the region and in the main are aimed at local markets.

3. Creative and Digital Media and Renewable Energy

- Manchester and Liverpool will continue to develop and dominate the creative and digital media sector in the region.
- Media City will create a hub for this activity in Salford

Renewable energy is a key growth area in the UK and does present some opportunities for the region although it is unlikely that these will be focussed on strategic sites. There may be opportunities related to the Irish Sea offshore wind energy market.

4 Implications for Strategic Regional Sites

4.1 This section draws together the conclusions of the economic overview and the property market overview. It identifies the key trends that are likely to impact on the strategic regional sites.

4.2 The credit crunch surprised many leading economists and very few predicted it. The effect of this is that no economists are prepared to predict what will happen when we come through the recession. This is a concern for this study as the lack of medium to long term economic projections creates significant uncertainty and makes predicting what will happen to the North West economy extremely difficult.

4.3 We have therefore had to rely on the economic data that does exist for the shorter term and the review of trends in the property market to establish what the key implications will be for the strategic regional sites of the down turn and subsequent recovery in the market. In relation to the property market we have relied on published information and our own knowledge to undertake this report, we have not undertaken any primary research.

4.4 Below we set out our thoughts on the key implications for the strategic sites based on the economic and property chapters:

- The main urban areas in the region will continue to outperform the rest of the region. Manchester, Liverpool and parts of Cheshire and Warrington will continue to see strong demand for offices and industrial property. FDI's will see these areas as the most attractive as their communications and infrastructure mean they stand out from the competition. There will obviously be some exceptions to this and areas such as Chester City Centre and Preston City Centre could also benefit from increased demand if they can improve their market offer with development proposals in the pipeline.

- There are strong indications that multimodal distribution hubs will become more and more attractive as companies look for greener modes of transport and the roads become more congested. This will mean that sites such as Ditton and Barton Docks (Port Salford) should perform well, whilst if Parkside can secure planning consent and address viability issues, it would also be well placed to cater for distribution demand in the medium to long term.

- Logistics is generally a growing sector and whilst employment numbers may be relatively small, the increase in online shopping will make distribution hubs more and more important. Sites across the region along the key motorway corridors, the M6, M62 and M56, will continue to be attractive to retailers and distribution/logistics companies.

- A sector that is expected to grow and perform well is Research and Development. The growth in this sector will lead to opportunities around the region's universities and specialist business parks. We therefore expect Daresbury, West Lakes Science Park, Oxford Road, Alderley Park, Samlesbury and Liverpool University Edge to capitalise on this sectoral growth. We can also see potential at Bailrigg in Lancaster but there are lots of obstacles that make that site difficult to develop in the short term.

- The public sector has been a leading force in development around the region. The cuts in public expenditure that are expected in the short term will have a major impact on the ability of the public sector to support development. Despite this there may be some investment in the "total place" initiative that seeks to colocate public bodies as a cost saving measure.

- There are however likely to be some positives to come out of a review into public spending. The first and probably the most important will be relocations of public sector functions out of London. The region will be competing on a national basis for these potential relocations but a lot of work has already been undertaken in the North West that should mean they are well placed to capitalise on some of the anticipated relocations. Within the region Manchester, Liverpool, Chester and Preston are best placed to provide sites for this use with sites close to the rail network seen as the most likely location.

- The Nuclear and Environmental sectors will see growth subject to no major changes in national policy. West Cumbria is likely to see the most benefit from the expansion of this specialist sector due to the skilled workforce in this location.

- The green agenda and environmental issues will continue to have a major impact on the property market across the region. This will take on a number of forms including:

    a) Carbon Neutral/BREEAM developments will have both positive and negative impacts on the market. The increased costs associated with achieving these aims will have an impact upon the viability of development in the short term. However there will be increased R&D and manufacturing as companies try to develop innovative ways to achieve these aims at lower costs.

    b) There will be increased use of rail freight services as companies try to reduce their own emissions.

c) There will be growth in renewable energies and in particular the manufacture of these technologies.

d) The waste and recycling sector will continue to grow as the impact of government policies on land fill and the green agenda mean that companies will look to recycle more waste.

5 Locational and Sectoral Analysis

Meeting Market Needs and Future Opportunities

5.1 There are four overarching policy objectives, where strategic regional sites can contribute to meeting RES, RSS and RS2010 policy objectives.

- *Economics/ jobs growth and regeneration*: It is judged that a portfolio of sites will contribute to the growth of the region and help ensure that the region is internationally competitive. Identified sites will help diversify economic activity in regeneration areas, as well as support the growth of sustainable communities
- *Provision of land for employment*: Strategic employment sites have a key role in providing a range of sites to accommodate the needs of businesses within the region
- *Geographical Distribution of Sites*: The identified portfolio of sites provides capacity at many of the strategic locations in the RSS and to meet the strategic ambition specified in the RES.
- *Supporting Key Sectors*: Strategic employment sites will support the growth of existing and emerging key sectors and transport gateways

5.2 Bearing these factors in mind, it is therefore necessary that the portfolio of strategic regional sites for the North West of England provides the right type of sites in the right locations to deliver the aims and objectives of the RES and emerging Regional Strategy. Below is a consideration of the locational requirements of the target sectors.

Locational Requirements

5.3 Given the wide ranging nature of the target sectors, their property requirements are diverse. Where such development will take place is guided by a range of macro and micro locational factors that drive the investment decisions of the target sectors. Common themes can be identified within the site requirements of these high-order economic activities. If sites are to meet their needs they must offer the following:

- Access to strong local labour supplies
- Easy access to main road networks or strong public transport options
- High quality physical environments
- Up to date IT provision
- Local Amenities
- Access to stable and adequate power supplies

Financial and Professional Services

5.4 Financial and Business Service activities consistently require proximity to large pools of skilled labour. Many business services also depend on close proximity to client businesses. These opportunities tend to be most available in urban locations and places with very strong transport links.

Site Requirements

5.5 In addition to demanding sites within urban locations, financial and business services tend to create demands for high quality office stock.

Likely Regional Implications of Growth

5.6 Any growth in financial and business services is likely to demand sites within existing centres of these activities:

- Manchester
- Liverpool
- Chester

Manufacturing

5.7 As with all high value added knowledge-based activities, these industries benefit from strong localisation of economies of scale – highlighting the need for provision of space close to concentrations of these activities.

5.8 There are strong benefits associated with the co-location of these activities with research centres. Further growth is likely to demand locations close to existing centres as new firms look to take advantage of specialist suppliers and availability of a skilled and trained workforce.

Site Requirements

5.9 These activities are likely to predominantly demand accommodation on business and industrial parks. Good access to the main road and other rapid distribution networks will be of particular importance to many firms within this sector.

Likely Regional Implications of Growth

5.10 Importance of provision close to existing concentrations of activity within the North West include:

- Aerospace – Lancashire (Warton, Samlesbury, Barnoldswick) Deeside (Broughton)
- Automotive - Merseyside (Ellesmere Port, Halewood), Crewe
- Chemicals - Halton, Ellesmere Port, Warrington, Port Sunlight
- Biomedical - Alderley Park, Liverpool, South Manchester
- Advanced Flexible Materials - Central Lancashire, North Manchester
- Food and Drink – Wigan, Trafford Park, Wirral, Liverpool, North and East Manchester

Logistics

5.11 Demand is frequently characterised by highly specific requirements such as needs to locate close to specific markets, or immediately adjacent to other logistics facilities such as ports or airports.

Site Requirements

5.12 The link between the throughput of logistics facilities and their land requirements is relatively stable – an expansion of activity on a site is likely to yield a requirement for more land. This requirement is particularly significant as logistics operations are often exceptionally land hungry and require larger sites than other employment activities.

Likely Regional Implications of Growth

5.13 Demand for specific sites with good access to the region's expanding ports and airports as well as its road and rail infrastructure is likely to be strong:

- Ports – Liverpool, Birkenhead, Manchester Ship Canal, Cumbria
- Inter-modal freight – Widnes, Parkside, Port Salford
- Airports – Manchester, Liverpool, Blackpool, Carlisle
- Motorway Corridors – M6, M56, M60, M61,M62, M65

Energy & Environmental

5.14 The sector is associated with specific but highly diverse locational requirements. The generation of energy from renewable sources is characterised by highly specific locational requirements relating to access to renewable resources – the location of new activities will be driven by access to these. Similarly, many research activities benefit from close proximity to the environmental assets under consideration. Common to many knowledge economy activities, the locational requirements of other aspects of this sector are likely to be driven by close proximity to other pools of labour and institutions.

5.15 Additionally many of these environmental technology activities are closely linked to other sectors including advanced engineering and agriculture. Locational requirements for some activities will therefore also be influenced by concentration of these activities.

Site Requirements

5.16 The spread of activities within this sector prevent any detailed predictions of site needs. However, it is likely that the sector will demand provision of sites suitable for research and development activities as well as industrial sites for the implementation of these technologies. As indicated earlier, there may be requirement for a large portside site if opportunities arising from Irish Sea offshore wind development are to be realised in the North West.

Likely Regional Implications of Growth

5.17 This sector is likely to generate demand for sites close to existing research in Warrington, Cumbria and several universities. It is also likely that coastal areas will require large sites for offshore facilities

- Nuclear – West Cumbria, Warrington
- Offshore Generation – West Cumbria, Mersey Ports
- Waste – All areas
- Environmental Technology – Universities including Liverpool, Manchester, Lancaster

Creative Industries

5.18 The Creative industries cover a very wide range of activities including: advertising, architecture, arts and antiques, video/ film/ photography, music/ visual/ performing arts, publishing, software/ computer games and electronic publishing as well as radio and TV. Areas in Manchester and Liverpool have been identified as important assets for the creative industries in the north west.

5.19 Nationally, the creative industries are thought to have grown at twice the national rate over the past decade and this is likely to continue. A process of convergence between many creative, media and digital industries at Media City is likely increase the importance of the area.

5.20 Examples of creative industries that add the greatest value typically focus on strong networks operating at the heart of agglomerations of other activities, or focus on the development of clusters around one large anchor organisation, such as the BBC. These aspects of their nature make it hard to relate creative industries to an assessment of sites.

Site Requirements

5.21 For the reasons outlined above, the site requirements for creative industries are highly diverse

Likely Regional Implications of Growth

5.22 There will be strong growth around Media City in Salford and related developments such as the Sharp Centre. There will be other growth mainly in urban areas with access to particularly strong ICT infrastructure

- Media City & Manchester
- Central Liverpool

Sector Targeting of Strategic Regional Sites

5.23 In 2009, the NWDA Board approved the designation of 36 strategic regional sites. This was a revised list that includes twenty retained sites from the previous list and sixteen new sites; five sites from before have been deleted.

5.24 The NWDA has provided a draft outline of the purposes for each site on its website (www.nwda.co.uk). These are outlined below:

Regional Strategic Site	Brief Economic Purpose
Alderley Park, Macclesfield	Life Science Research & Development
Ashton Moss, Tameside	Deliver Employment in east Greater Manchester
Bailrigg, Lancaster	Computing and ICT. Knowledge Industries spin out
Barton (Port Salford)	Modern inter-modal exchange – logistics and strategic freight
Basford, Crewe	Flagship scheme for South Cheshire – railway and engineering
Birkenhead Docks, Wirral	Mixed Use housing, knowledge and port related development
Central Bolton	Create a High Quality environment to attract knowledge industries
Carlisle City Centre	Focus for Economic Growth
Central Chester	Promote knowledge-based activity
Central Park, Manchester	Attract Knowledge based industries in a priority Regeneration area
Cuerden, South Ribble	Generic manufacturing; links with aerospace; knowledge industries
Daresbury, Runcorn	Secure new science based investment in R & D from nationally important labs. Mixed use leisure and office development
Ditton	Modern inter-modal exchange, logistics and strategic rail freight
Dunningsbridge, Sefton	Freight handling and logistics
Estuary, Liverpool	Business Park – Life Sciences. Proximity to Liverpool JLA
Freckleton Street, Blackburn	High Quality environment to attract knowledge industries
Kingmoor, Carlisle	Focus for High Quality Indigenous Growth and investment
Kingsway, Rochdale	Flagship for Inward Investment and strategic distribution
Lillyhall	Focus for high quality indigenous growth and investment related to Nuclear Industry
Liverpool North Docks	Mixed use including houses, offices, inward investment, port related and process industries
Liverpool Pall Mall	Attract nationally significant inward investment in the office sector
Liverpool Science Park (Edge Lane)	Provide grown on space for Indigenous high tech companies

Regional Strategic Site	Brief Economic Purpose
Liverpool University Edge	Regional Focus for Knowledge Related jobs and people
Omega, Warrington	Nationally and regionally significant new development, with emphasis on manufacturing and process inward investment
Parkside, St Helens	Modern, inter modal exchange, logistics and strategic freight
Central Preston	Promote knowledge-based development
ROF, Chorley	Inward investment; manufacturing, strategic distribution
Salford Quays	Mixed use framework building on the strengths of Media City
Samlesbury, Lancashire	Nationally important centre for Aerospace and Advanced Manufacturing
Sportcity, Manchester	Nationally important for Sport and Leisure development
Piccadilly Basin/ Oxford Road, Manchester	Use indigenous assets to promote nationally significant inward investment and indigenous growth
Central Warrington	Bring forward knowledge based investment sites
Westlakes Science Park, West Cumbria	Knowledge based industry related to nuclear power and decommissioning
Whitebirk, Blackburn	Premier Employment Site for East Lancashire
Wigan South Central	High Quality environment to attract knowledge industries
Wirral International Business Park	Investment, manufacturing and process industries

Table 1: Purposes of Strategic Sites (source NWDA)

5.25 These sites provide a balanced portfolio covering strategic locations in all sub-regions and providing for a range of economic purposes to help develop the region's target sectors as identified in the RES and emerging Regional Strategy. The portfolio of sites will contribute to the growth of the region and help ensure that the region is internationally competitive and they will have a key role in providing a range of sites that accommodate the needs of businesses within the region. The sites will help diversify economic activity in regeneration areas, as well as support the growth of sustainable communities.

5.26 Using the descriptions outlined above, we have considered the sites against the target sectors outlined in the RES and emerging Regional Strategy. Some are very specifically targeted at one sector (Alderley Park, Samlesbury) of the RES, some are logistics and gateway sites and others that have a more generic function targeting a variety of economic sectors.

Gap Analysis

5.27 Table 2 identifies the strategic regional sites and how they may contribute to meeting the identified sectoral and specific locational requirements.

Growth Sector	Locational Demands	Regional Sites	Gaps
Financial and Professional Services	Any growth in financial and business services is likely to demand sites within existing centres of these activities: ○ *Manchester* ○ *Liverpool* ○ *Chester*	Birkenhead Docks, Wirral Central Bolton Carlisle City Centre Central Chester Central Preston Freckleton Street, Blackburn Liverpool North Docks Liverpool Pall Mall Central Warrington Wigan South Central Piccadilly Basin/ Oxford Road, Manchester	We believe that this sector is adequately covered by the Regional Site Portfolio.

Manufacturing *Advanced Manufacturing* *Aerospace* *Automotive* *Chemicals* *Biomedical* *Advanced Flexible Materials*	Importance of provision close to existing concentrations of activity within the North West include ○ *Aerospace – Lancashire (Warton, Samlesbury, Barnoldswick) Deeside (Broughton)* ○ *Automotive - Merseyside (Ellesmere Port, Halewood), East Lancashire, Crewe* ○ *Chemicals - Halton, Ellesmere Port, Warrington, Port Sunlight* ○ *Biomedical - Alderley Park, Speke* ○ *Advanced Flexible Materials - Central Lancashire, North Manchester* ○ *Food and Drink – Wigan, Trafford Park* ○ *General Manufacturing*	Alderley Park, Macclesfield Ashton Moss, Tameside Birkenhead Docks, Wirral Central Park, Manchester Cuerden, South Ribble Estuary, Liverpool Liverpool North Docks Wirral International Business Park ROF, Chorley Samlesbury, Lancashire Whitebirk, Blackburn Liverpool University Edge Kingsway, Rochdale Basford, Crewe Lillyhall, West Cumbria	The range of Strategic Regional Sites provides a cross section of sites for the manufacturing sectors identified in the Regional Economic Strategy and emerging Regional Strategy.
Logistics and Distribution	Demand for specific sites with good access to the region's expanding ports and airports as well as its road and rail infrastructure is likely to be strong: ○ *Portside – Liverpool, Birkenhead, Manchester Ship Canal, Cumbria* ○ *Inter-modal freight – Widnes, Parkside, Barton (Port Salford)* ○ *Airports – Manchester, Liverpool, Blackpool, Carlisle* ○ *Motorway Corridors – M6, M56, M60, M61,M62, M65*	Parkside, St Helens Dunningsbridge, Sefton Ditton Basford, Crewe Barton (Port Salford) ROF, Chorley Ashton Moss, Tameside Kingmoor, Carlisle Omega, Warrington Kingsway, Rochdale Lillyhall Estuary	Geographic spread of sites across the region. Gap in portside opportunities around Mersey Ports due to lack of Logistics sites in designated Strategic Regional sites (Wirral Waters, Liverpool Waters, Dunningsbridge Road). Gap in provision close to Manchester Airport
Energy & Environmental Technologies	The site requirements for Energy & Environmental Technologies are highly diverse. This sector is likely to generate demand for sites close to existing research in Warrington, West Cumbria and several universities. It is also likely that coastal areas will require large sites for offshore facilities ○ *Nuclear – West Cumbria, Warrington* ○ *Offshore Generation – West Cumbria, Mersey Ports* ○ *Waste – All area* ○ *Environmental Technology – Universities including Liverpool, Manchester, Lancaster*	Westlakes Science Park, West Cumbria Lillyhall Bailrigg, Lancaster Daresbury, Runcorn Kingmoor, Carlisle Liverpool University Edge Piccadilly Basin/ Oxford Road	The portfolio is well balanced to the likely opportunities. Waste is likely to be an increasingly important sector for the use of employment land, but it is not likely to be important on Strategic Regional Sites. A site may be required for offshore wind turbine construction in the NW.
Creative Industries	There will be strong growth around Media City in Salford and related developments such as the Sharp Centre. There will be other growth mainly in urban areas with access to particularly strong ICT infrastructure ○ Media City & Manchester ○ Central Liverpool	Piccadilly Basin/ Oxford Road, Manchester Salford Quays Liverpool University Edge Liverpool Science Park (Edge Lane)	Salford and Manchester is the regional focus and this is well provided for. There are also sites in Liverpool and several of the major towns. This sector is adequately provided for

Table 2: Sector Demands and the Current Portfolio of Strategic Regional Sites

- *Finance and Professional Services* – This is well provided for in the region. The economic analysis has highlighted that growth in this sector is likely to demand sites in Manchester, Liverpool and Chester. These sites are provided for in the portfolio of Strategic Regional

Sites and there is additional capacity provided in additional town centre sites in the city regions.

- *Manufacturing* – The economic analysis has stressed the importance of provision close to existing concentrations of activity within the North West. Sites such as Ashton Moss, Central Park, Kingsway, Wigan, Birkenhead and Liverpool Docks, Wirral International Business Park, Estuary, Basford, Omega, Cuerden, Chorley, Whitebirk, Kingmoor and Lillyhall provide a spread of opportunities across the region for manufacturing operations and inward investment opportunities.
- *Logistics and Distribution* – The analysis has shown that there is demand for specific sites with good access to the region's expanding ports and airports, as well as its road and rail infrastructure.
- *Energy & Environmental* – This sector is likely to generate demand for sites close to existing research in Cumbria, Warrington and several universities. These requirements would appear to be well covered although, as highlighted earlier, there may be a requirement for a large portside site in the North West to capitalise on the opportunities presented by the offshore wind energy developments in the Irish Sea.
- *Creative Industries* – The site requirements for creative industries are highly diverse. Media City is the main regional site and there will be other growth mainly in areas with access to particularly strong ICT infrastructure. Salford Quays, Oxford Road, Central Park Liverpool University Edge and Liverpool Science Park provide a good spread of opportunity.

5.28 From the analysis undertaken, it clear that the region needs a broad spectrum of sites to deal with the likely areas of demand going forward. This is particularly important at this stage given the uncertainties surrounding the economy and its recovery from recession.

5.29 The current portfolio of strategic regional sites provides a diverse range of sites for the various key sectors across the region. The sectoral analysis undertaken as part of this study has highlighted the locations of strategic importance to the delivery of the Regional Economic Strategy. Based on our research and analysis, it is our opinion that the existing portfolio of strategic regional sites generally provides for anticipated demand from both a geographical and sectoral perspective. It is therefore our opinion that there is no specific need to allocate any further strategic regional sites at this time. However, we believe that there may be an unmet opportunity in relation to offshore wind turbine construction and issues worthy of further consideration in relation to the region's key international gateways.

International Gateways

5.30 The study has focussed on whether the current portfolio of strategic regional sites will meet expected sectoral and locational requirements. During the analysis, consideration has been given to the importance of the region's international gateways as key economic drivers. The analysis has highlighted that proximity to Manchester Airport is an important factor for a range of businesses, particularly those with direct links such as distribution and the airport supply chain, and potentially inward investors. The limited availability of sites has resulted in airport related businesses and those demanding proximity to the airport to locate across South Manchester. The development of the Manchester's Local Development Framework and spatial masterplanning being undertaken by the Airport will help to determine whether there is potentially a need for more development close to the airport. At the Port of Liverpool, land assembly and significant planning issues will need to be overcome to enable the port to realise its full potential as an economic driver. The port masterplan, currently under development, will help to determine what actions and interventions are required.

6 Summary & Conclusions

Economic Context

6.1 Global economies have experienced a severe recession in the wake of the credit crunch. A recovery in the UK economy began in the fourth quarter of 2009 with growth of only 0.3% on the previous quarter. Consensus forecasts see a return to trend growth in 2011. However the credit crunch surprised most economists and few predicted it. As a result, few economists are prepared to make longer term forecasts. This creates significant uncertainties. As a result the region will need to have a broad spectrum of sites to respond to potential areas of demand.

6.2 These potential areas of demand are very wide ranging. They include:

- Financial and professional services, where the UK is a world leader with considerable potential for FDI. Growth is forecast to return in 2010 continuing to 2030, with continued demand in Manchester, Liverpool and Chester;

- Manufacturing, where the North West is the strongest performing region in the UK and positive prospects for GVA growth despite falling employment;

- Logistics, where further investment and development is likely at key transport nodes;

- Energy and environmental technologies, where the North West has world-class skills in a number of key areas, including nuclear. The UK is one of the top 5 international markets in offshore wind. There are potential opportunities to capitalise on Irish Sea and Irish coast off shore wind energy development, the development of the nuclear industry, and strong demand in reported waste recycling sites; and

- Inward investment, where the region is second only to London and the South East as an FDI location. FDI has proved resilient to the recession and accounts for 1 in 10 jobs in the region.

The Outlook for the Office Market

6.3 Much recent demand in the office market, in both city centre and out of town business parks, has been driven by the public sector. This is unlikely to continue given the outlook for the public finance and the cost cutting agenda which will restrict development especially in town centres. The out of centre market has been restricted due to a lack of funding and speculative development. The banking crisis means that speculative development is unlikely across the region in the short term, with any return limited to Manchester city centre in the medium term.

6.4 Whilst public sector dependence is a continuing risk, there may be important opportunities for public sector relocations. These are likely to be confined to Liverpool, Manchester, Chester and possibly Preston. However these locations will be competing with strong competition from elsewhere in the UK.

6.5 The recession has impacted seriously on the financial sector, and with the important exception of the Cooperative expansion in Manchester, it is not expected that there will be significant investment in the short term. Chester Business Park is historically dependant on financial services.

6.6 With demand suffering in the downturn, Manchester city centre has a significant amount of Grade A office space (950,080 sq ft or three years supply) resulting from unprecedented recent levels of investment. Liverpool has only 180,000 sq ft of Grade A space. In Greater Manchester and Merseyside, there has been significant dependence on public sector demand at business parks e.g. Greater Manchester Police at Central Park. Merseyside's out of town market saw demand fall by circa 40% in 2009.

6.7 Elsewhere town centres are struggling. For example, Preston has struggled with demand because of an historic supply problem, Cumbria is restricted to local demand, and Warrington town centre recorded the worst take up on record in 2009. Rental values are low in Lancaster and the Fylde Coast does not have a significant office market.

Outlook for the Manufacturing Sector and Logistics

6.8 The economic analysis demonstrates the significance of manufacturing, including FDI, in the region's economy and points to some specific areas of opportunity. The region's specialism in a number of highly skilled, high GVA sub-sectors offers future growth opportunities. The analysis also highlights potential future demand in waste and recycling, the nuclear sector and a specific opportunity relating to offshore wind energy. Equally there is evidence of resilient demand in the logistics sector.

Conclusions

6.9 Based on the review of the economy and the property market, there is clearly difficulty in predicting what will happen to the economy in the medium to long term. This high level of uncertainty supports the need for a broad portfolio of strategic regional sites to meet likely areas of demand going forward. The existing portfolio provides a good range of sites which are expected to generally meet the need of a diverse range of sectors across the region.

6.10 With the possible exception of civil service relocation and FDI, there is unlikely to be significant demand for office development from the service sector or public sector. Speculative development is unlikely to return in many areas on the short to medium term in most areas.

6.11 Together with FDI, manufacturing appears to offer the most significant potential for growth. The logistics sector also presents opportunities.

6.12 When it returns, demand for offices is likely to be focussed firstly on Manchester and Liverpool city centres. The office market in town centres will generally be weak with most demand being local in nature. The outlook for out of town locations including some business parks, particularly those suitable for FDI and manufacturing, may be stronger. Conversely, some town centre locations beyond the major centres may present a challenge for attracting investment.

6.13 The following key points can be drawn from the research undertaken:

- There is no identified need to designate further strategic regional sites in general;
- Given the weak outlook for office development, there may be a need to consolidate;
- There is a general need to retain sites (strategic regional sites and others) suitable for manufacturing (and waste and recycling) and FDI;
- There are possibly some special opportunities related to logistics, offshore wind turbine construction and FDI. Further consideration should be given to the site requirements for offshore wind turbine construction and to the issues highlighted in relation to the Port of Liverpool and Manchester Airport.

6.14 It is apparent that the strategic regional sites form a spectrum ranging from sites of clear transformational sector specific significance, such as Alderley Park, Daresbury or Westlakes, through to sites which have a more general focus supporting regeneration and economic restructuring objectives. It may be helpful to undertake a categorisation of sites in future as a means of clarifying their use and importance. Such an approach would inevitably call for a degree of judgement as some marginal sites would be difficult to categorise. In addition it would be important for the NWDA and partners to have a clear understanding of the possible resource consequences of such a decision, particularly at a time when both public and private sector investment is likely to be constrained.

6.15 If such an approach was seen to be helpful in the region, we suggest that the following criteria could be used as a basis for identifying the sites with clear transformational significance. Such sites should:

- Be of high quality and attractive to national and international investors;
- Have to the potential to act as a driver of the regional economy;
- Have a clear identity / brand and future vision;
- Accommodate development which could not equally be accommodated elsewhere;
- Support specific sectoral needs, such as knowledge based services located close to universities, major hospitals or other research establishments.