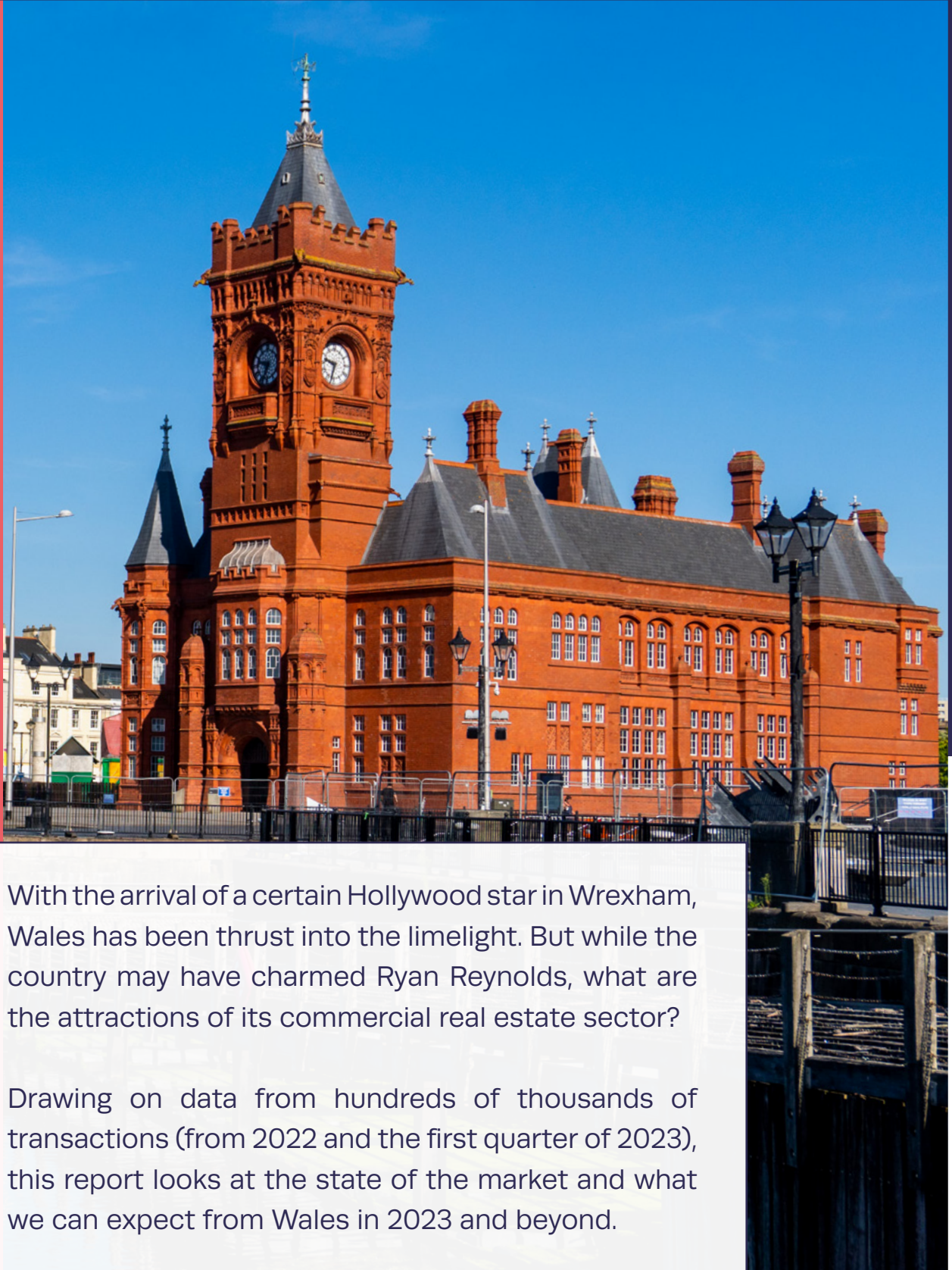




Regional Spotlight: Wales

The data behind a real estate recovery



With the arrival of a certain Hollywood star in Wrexham, Wales has been thrust into the limelight. But while the country may have charmed Ryan Reynolds, what are the attractions of its commercial real estate sector?

Drawing on data from hundreds of thousands of transactions (from 2022 and the first quarter of 2023), this report looks at the state of the market and what we can expect from Wales in 2023 and beyond.

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Wales: what to expect in the report

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WALES: THE DATA BEHIND A REAL ESTATE RECOVERY

Will Wales return to growth this year? According to the latest official figures, the devolved nation was the only area of the UK to see its economy contract during the first two quarters of 2022.

But the data on commercial real estate specifically – which is both a driver and signifier of economic growth – provokes a different conclusion: with several sectors showing a robust level of confidence. In some, key indicators even exceed pre-2020 levels.

Using thousands of transaction data points (in 2022 and Q1 of 2023) from across the country, this report analyses the factors driving occupier demand in Wales to understand the underlying strength of that CRE market. It explains:

- How office deals have rebounded since 2020, hitting a three-year high in 2022
- How industrial rents are now 17% higher than the five-year average
- The factors driving investment across the three major CRE sectors – office, industrial and retail
- The strength of the planning pipeline and sector approval rates

OFFICE – RENTS IN 2022 EXCEED FIVE-YEAR AVERAGE BY 13%

Wales' office market has historically been dominated by the three urban centres – namely, Cardiff, Swansea and Newport. Indeed, these three urban regions continue to contribute the vast majority of deals, helping to push last year's transactions to a three-year high.

Take-up (lettings and occupational sales) in 2022 reached an impressive 717,767 sq ft. Crucially, the market managed to maintain the momentum seen in 2021, where deals jumped 35% year-on-year (before rising another 0.5% last year).



Office Take-Up: 2019–2020 Number of Transactions

2019

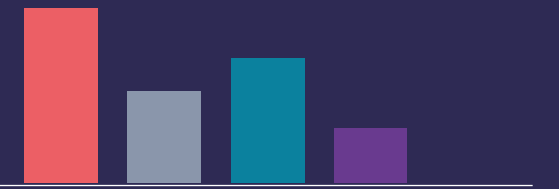
Q1 425,668

Q2 223,692

Q3 303,401

Q4 132,761

1,085,522
Take-Up
(Sq ft)



2020

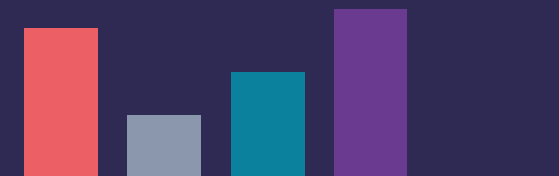
Q1 161,885

Q2 68,331

Q3 114,463

Q4 181,969

526,648
Take-Up
(Sq ft)

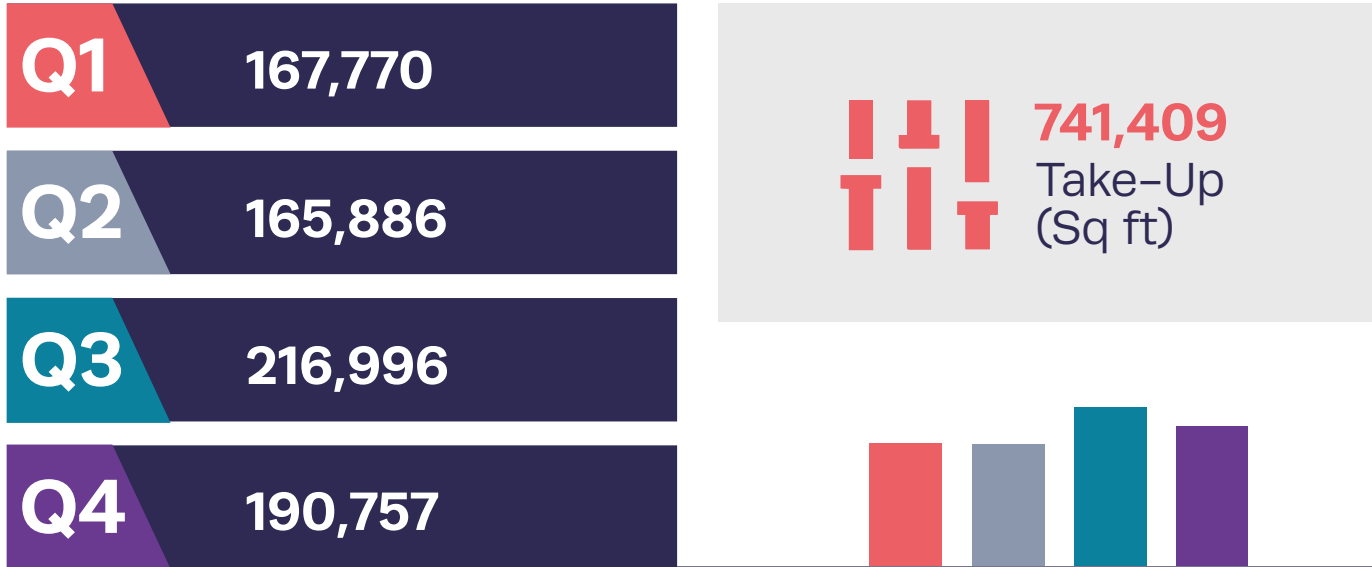




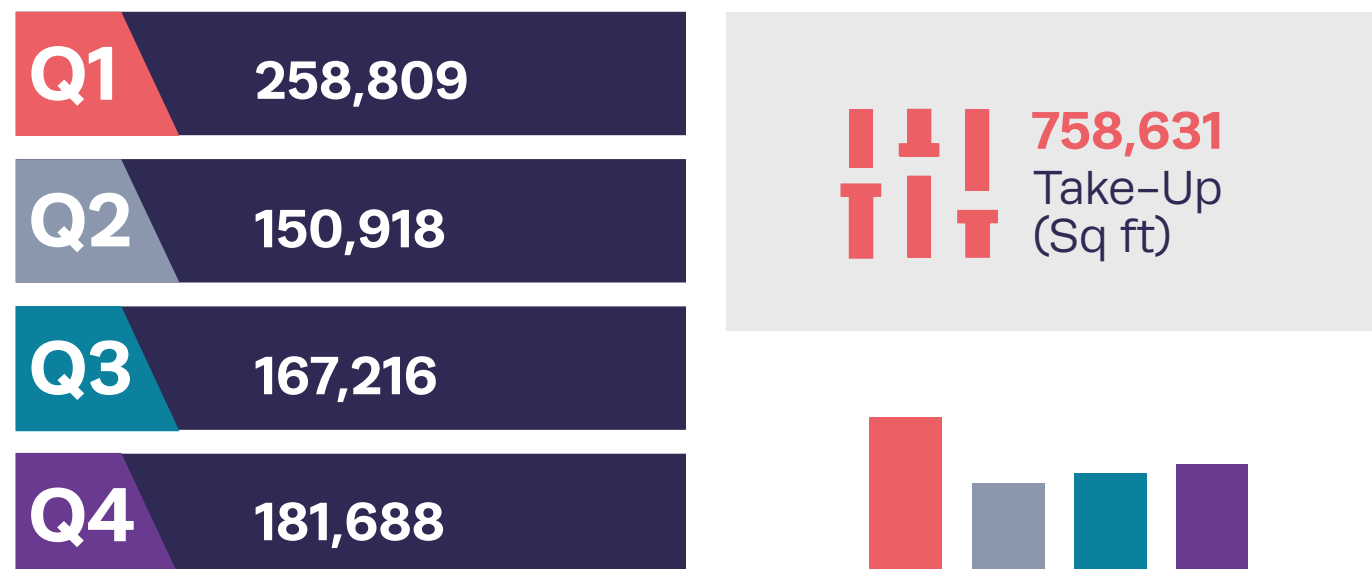
Office Take-Up: 2021-2022

Number of Transactions

2021



2022



“ Office rents in 2022 exceed the five-year average by 13%

Data from EG Radius shows that, where deals are taking place, market fundamentals remain strong. Like other parts of the UK, Wales reported a jump in average rents: with office rents in 2022 exceeding the five-year average by 13% (even as the size of the average letting fell from 3,609 sq ft to 2,939 sq ft).

In the capital, Cardiff, significant deals included BT taking on 65,000 sq ft of space in grade-A development 3 Capital Quarter, and US media company Roku taking on 25,845 sq ft at One Fusion Point. The latter premises was recently renovated, with a significant emphasis on sustainability, and will be looking to attract more occupiers.

This momentum has continued into Q1 2023, with television company Bad Wolf (the new producer of Doctor Who) confirming that it will rent 8,768 sq ft in Edward House by Cardiff Bay and Optical Express taking new space (9,832 sq ft) in the city's Oakleigh House. The latter is both the largest deal by size and the highest achieved rent (£24 per sq ft) in Q1 2023.

Investment volumes have been lower than in other parts of the UK (including Scotland), with investment purchases totalling £21.6 million in 2022. However, an average yield of 8.91% suggests that those investors who have committed to the Welsh market will reap the rewards.

INDUSTRIAL – RENTS 17% HIGHER THAN AVERAGE

In common with much of the UK, Wales has a severe shortage of quality industrial space, coupled with rising demand for high quality warehouses and logistics hubs (including for hosting data centres and other high growth sectors) outstripping available supply.

Data shows how this squeeze – combined with the ongoing “flight to quality” which is seeing occupiers prioritise the best units – is affecting the market. Rents have risen sharply: and are now 17% higher (at £7.44 per sq ft) than the five-year average.

The supply shortage may be affecting the market in other ways too. For example, the average lease is now 52% longer (at 8 years, 8 months) – potentially reflecting a desire among occupiers to tie in high quality spaces for longer given the tight market.

While take-up (lettings and occupational sales) dipped 54% year-on-year in 2022, it is worth noting that 2021 had set a recent high for the market.

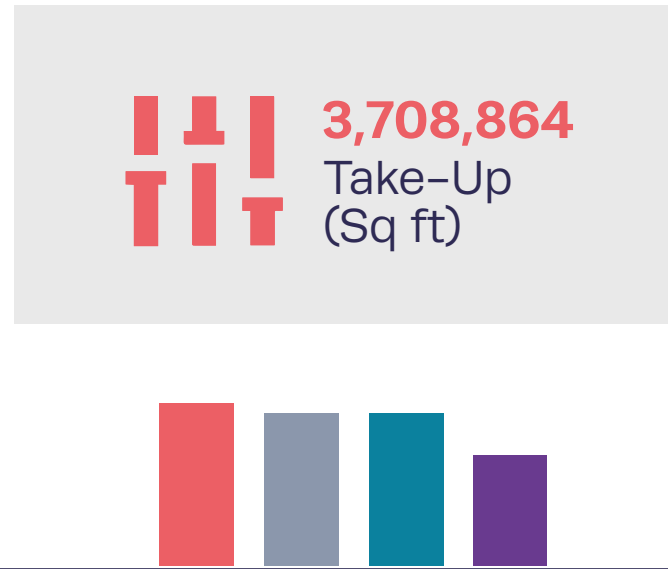
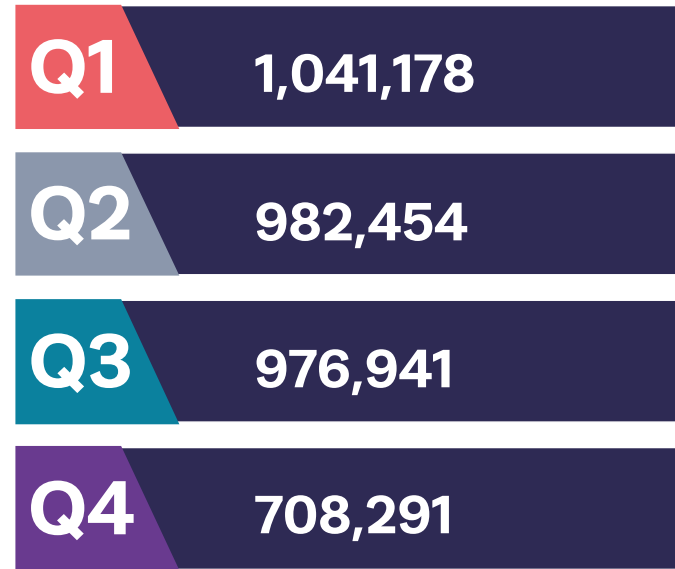
A number of large deals illustrate the strength – and the geographical spread – of industrial demand in Wales. Large lettings in 2022 included Nisbets taking 290,000 sq ft at the Newhouse Farm Industrial Estate in Chepstow and First Hydro Company taking 131,120 sq ft at Bangor’s Parc Britannia.



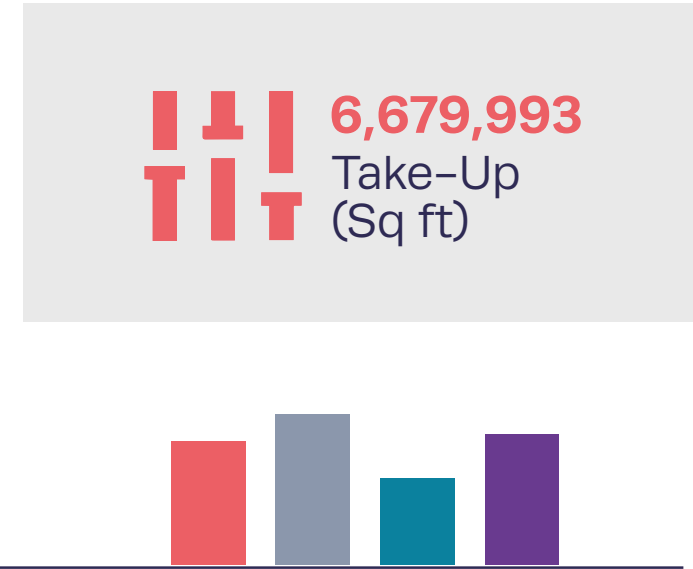
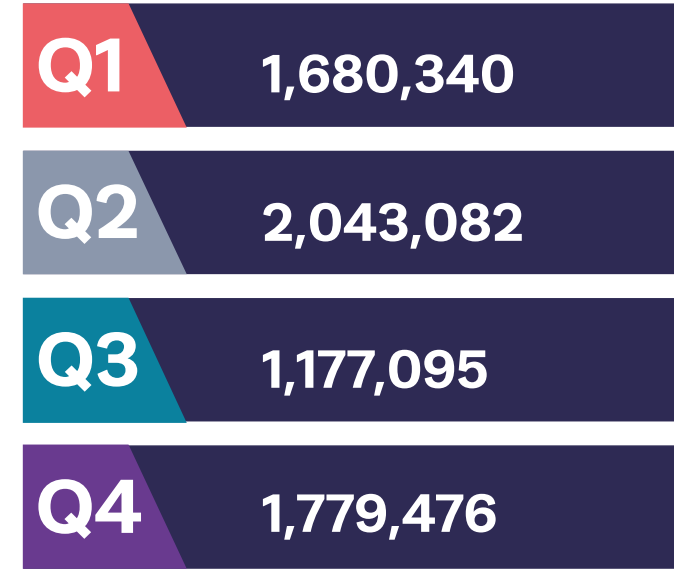


Industrial Take-Up: 2019-2022 Number of Transactions

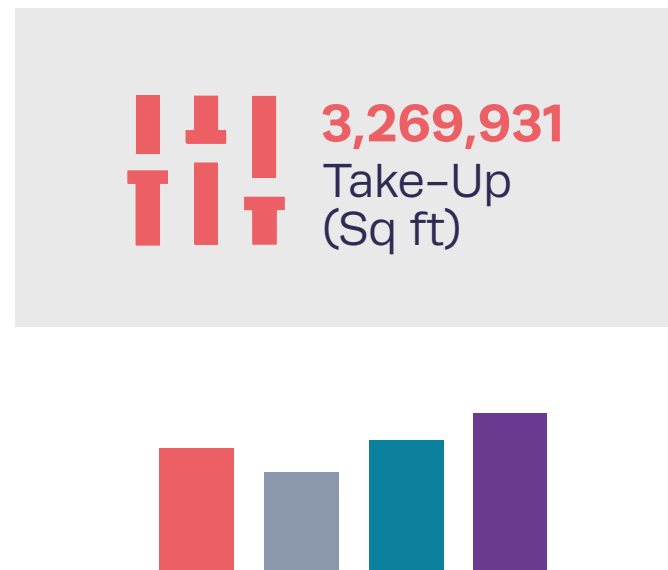
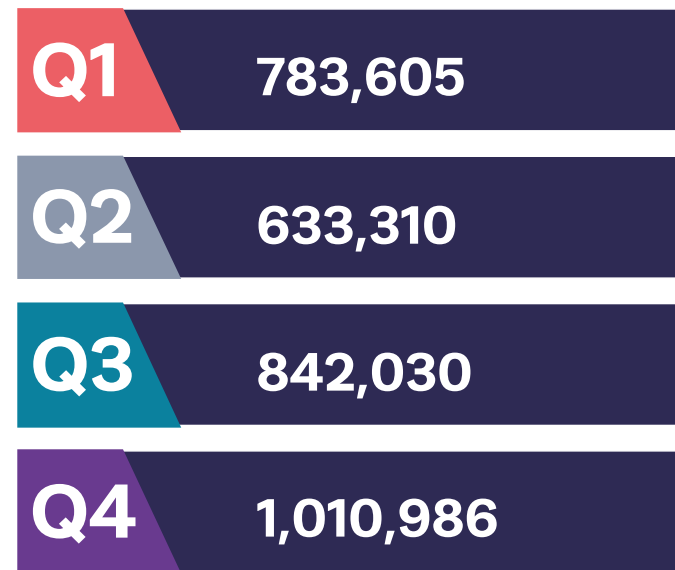
2019



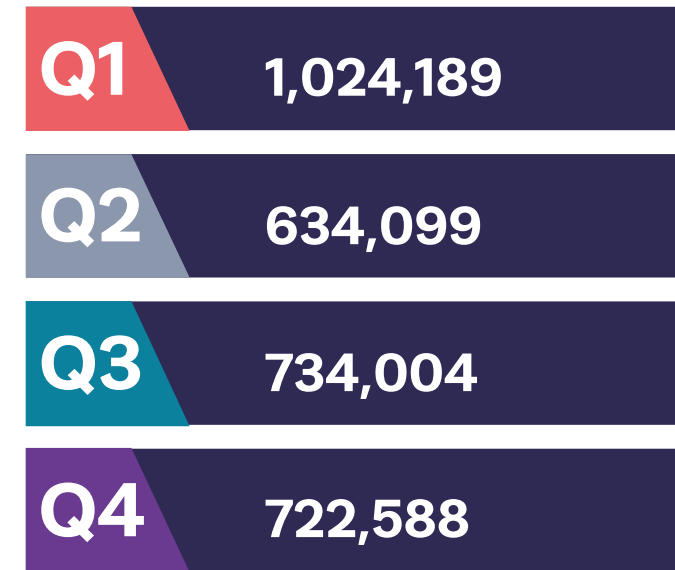
2021



2020



2022



RETAIL – INVESTMENT DEALS YIELD 10%

Despite the well-publicised headwinds for the UK retail sector, there are encouraging signs that large investors have a more positive outlook – and are sensing the opportunity to invest at a discount.

This is particularly evident in Wales, where investment sales for the retail sector in 2022 totalled £145.4 million. That's more than the industrial (£85.6 million) and office sectors (£21.6 million) combined. The attraction to investors is clear from the average yield: a market-beating 9.77%.

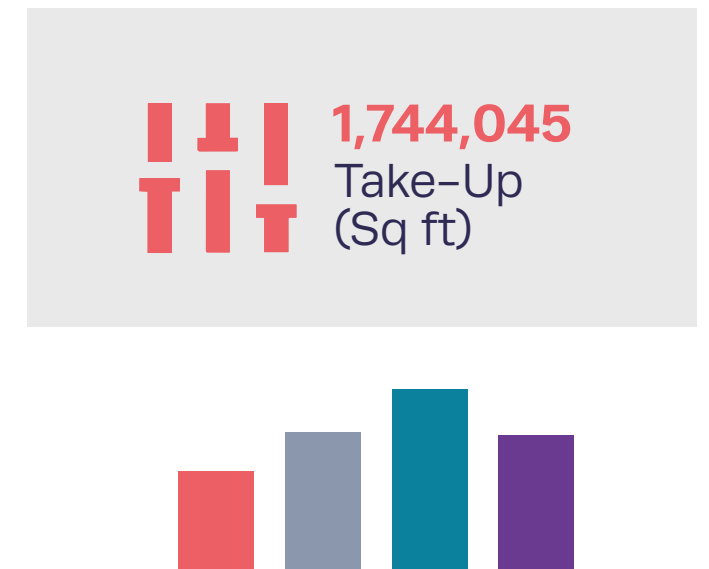
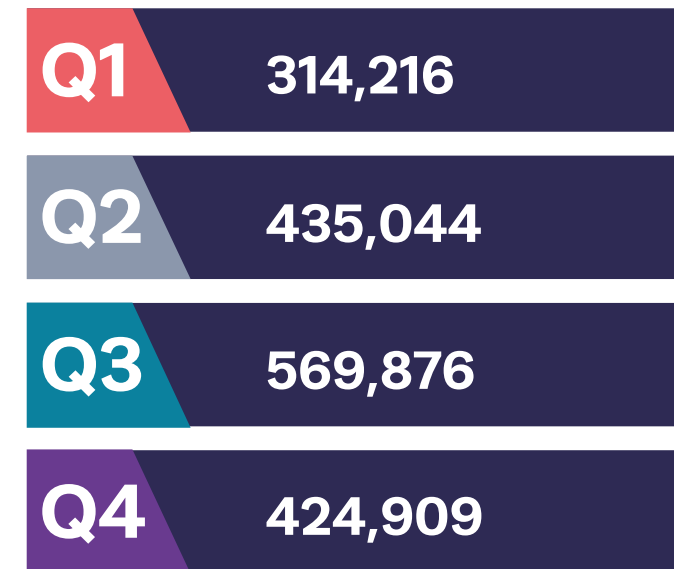


“ Investment sales for the retail sector in 2022 totalled £145.4million

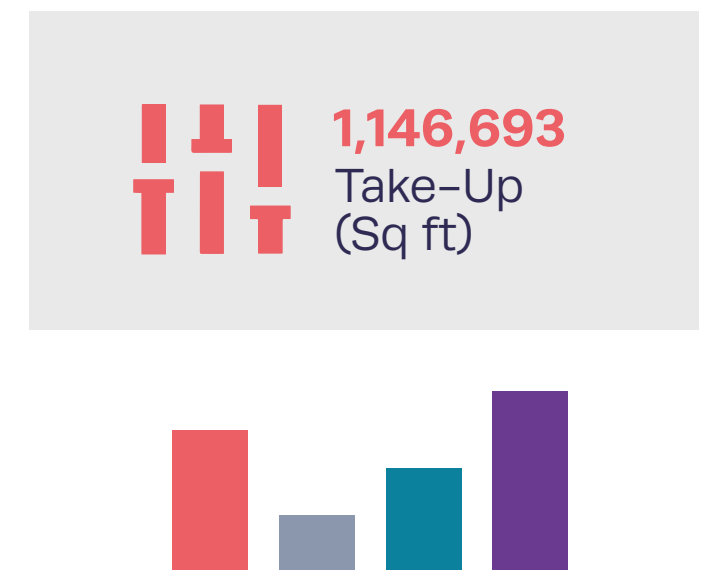
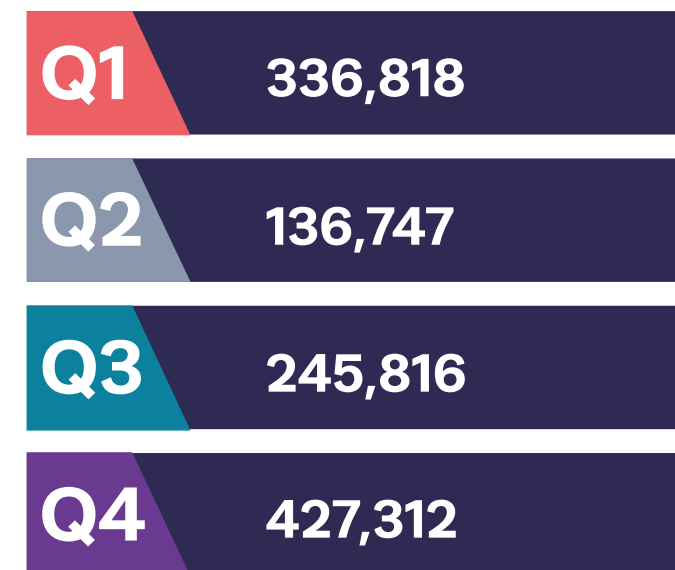


Retail Take-Up: 2019–2020 Number of Transactions

2019



2020

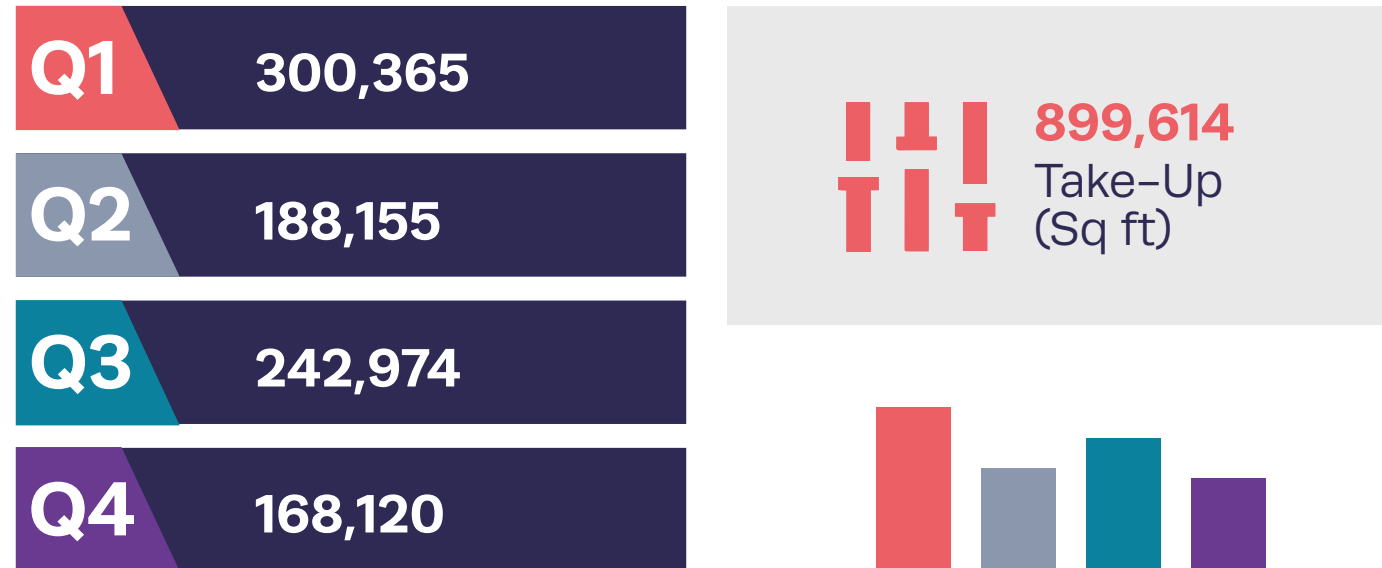




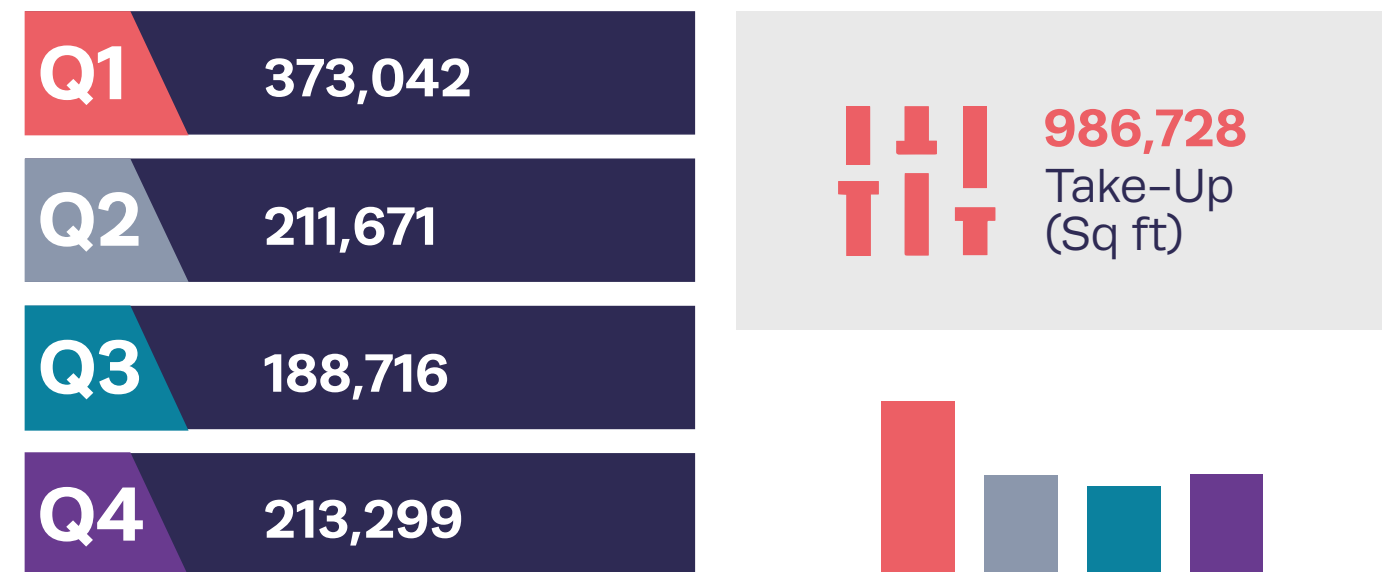
Retail Take-Up: 2021-2022

Number of Transactions

2021



2022



The market town of Llanelli has emerged as an acquisition hotspot, with the FTSE-listed Supermarket Income REIT acquiring a large Tesco supermarket in a £66.8 million deal and M7 Real Estate purchasing the town's Pemberton Retail Park (whose tenants include Halfords, Currys and Morrisons) for £28 million.

In terms of lettings and occupational sales, large and discount retailers continue to act as a driving force for the market, helping to mitigate the overall drop in transactions. Occupiers taking new premises included Poundland (19,786 sq ft in Llandudno) and Sterling Plus (16,709 sq ft in Swansea).

One notable deal in Q1 2023 shows how city centre retail premises are adapting to provide premium lifestyle experiences to bring in footfall. In February, the up-market steakhouse Gaucho announced it had agreed to lease 8,000 sq ft in Cardiff's St David's Dewi Sant for what will be its first Welsh restaurant.

"We are curating a premium offer at St David's so that we can continue to provide guests with unique experiences which cannot be found elsewhere," commented Mark Warne from Landsec's leisure team on the deal.

PLANNING – APPROVAL LEVELS REMAIN HIGH

EG collates data on planning applications across the three major sectors. This shows both the health of the overall planning pipeline – itself an indicator of developer sentiment – and the percentage of applications which gain approval.

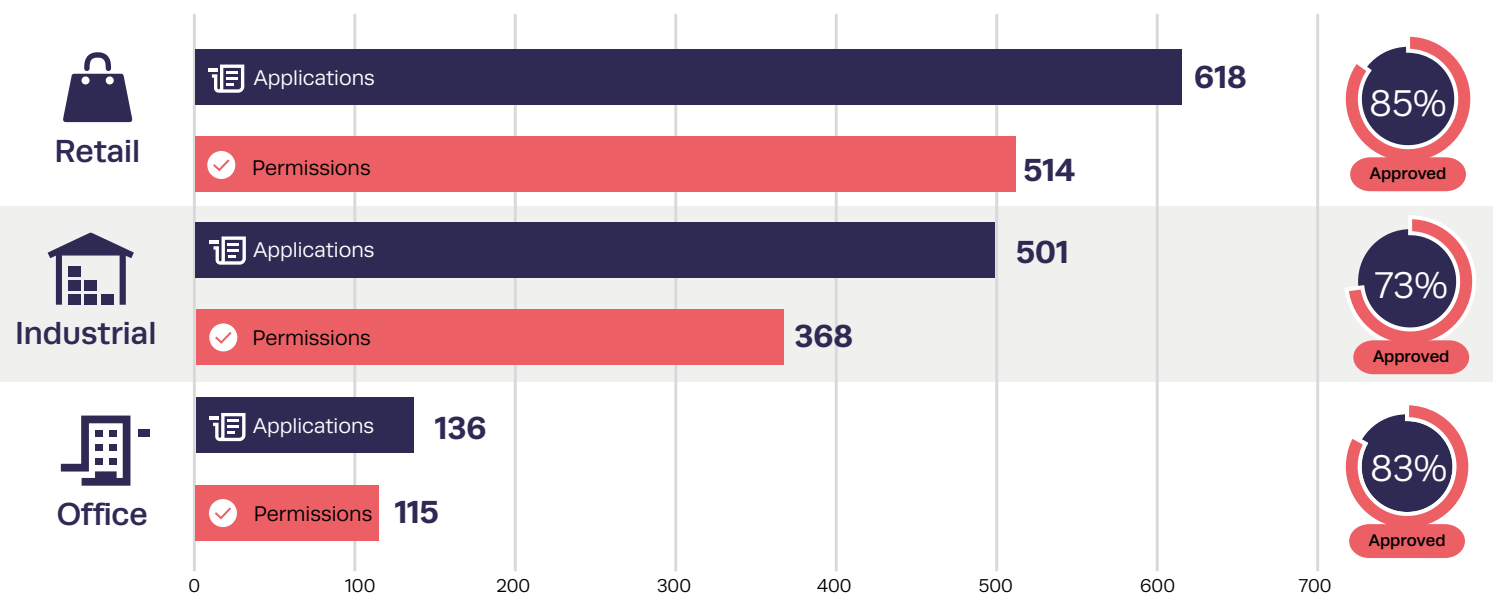
In terms of the overall volume of applications, all three sectors recorded a significant drop against the three-year average – with office dropping by 31%, retail by 8% and industrial by 7% in 2022. The data suggests some caution about assuming a sustained dip: particularly given that all three sectors exceeded their 2019 totals in 2021.

The percentage of approved applications, however, has either remained consistent (in the case of office and industrial) or risen (in the case of retail – up 6 percentage points to 83%). Last year, for example, 85% of office applications received permission: a total of 115.

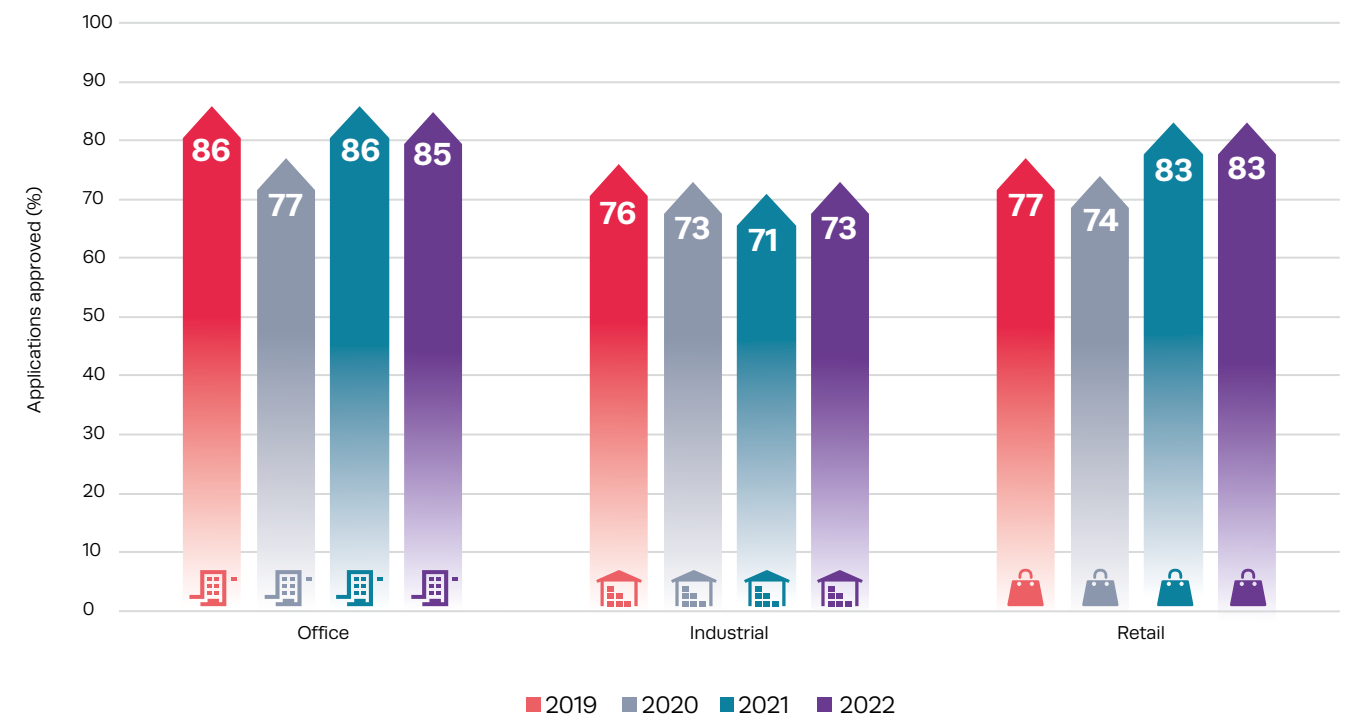
Healthy pipelines in previous years have contributed to a strong supply of real estate under construction. In the office sector, 2.15 million sq ft is due to complete in 2023, with 401,310 sq ft of completed space currently projected for 2024.

For industrial and retail, the respective totals – for 2023 – are 6.27 million sq ft and 1.04 million sq ft (and then 2.66 million sq ft and 145,323 sq ft in 2024). Given the shortage of quality industrial space, the former number will be welcomed by would-be occupiers and market-watchers alike.

2022: Planning applications vs permissions



Applications approved by sector: 2019 – 2022 (%)



LOOKING FORWARD – THE FUTURE OF CRE IN WALES

Despite economic uncertainties, Q1 has seen notable deals across all three main sectors. In the industrial sector, for example, the largest letting of the year has been Japanese-owned food and drinks company Princes taking 28,143 sq ft in Cardiff's Ocean Park – at a rent of £6 per sq ft.

Meanwhile data from EG Propertylink (which maps enquiries and searches from hundreds of thousands of occupiers, investors and developers) suggests that the market has fallen less than other parts of the UK: with enquiries down 10% on last year.

Should the market retain its impressive conversion rate – with 40% of enquiries leading to deals in 2022 – the impact on overall deals may be even less dramatic, giving Wales a potential advantage over comparable areas and regions in the UK.



Knight Frank sees industrial property take-up in Wales bounces back in the first quarter of the year

Neil Francis, partner, Knight Frank said:

The first quarter of 2023 saw the take-up of industrial premises of more than 50,000 sq ft in Wales bounce back from a subdued previous three months, with transactions totalling 412,000 sq ft over six deals, according to new research from global property consultancy Knight Frank.



“ Our figures comprised two sales and four leasehold deals, highlighting the lack of freehold opportunities within the market, especially in South Wales.

“ Two of the lettings were of properties purchased and refurbished to a high standard by developer PMG, reflecting the increasing role national operators are playing in keeping the industrial sector buoyant in Wales.

“ The announcement that two new freeports are set to be established in Wales – Celtic Freeport, covering Milford Haven and Port Talbot, and Anglesey Freeport in North Wales – is potentially very exciting, and it will be interesting to see how this progresses and the opportunities it presents.

“ We are seeing occupiers demand more from their units in terms of their sustainability and energy efficiency. The increase in rents and investor appetite for industrial property is helping ensure these requirements are being met and high-quality development is being delivered.

Neil Francis, partner, Knight Frank

“ Businesses are recognising the potential of the Celtic Freeport and are making efforts to secure a space and establish a presence in preparation.

[Henry Best, director, Jenkins Best](#)



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