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Our Ref: PAR/SJS/9916

Dear Sirs

ROMSEY TOWN CENTRE OFFICE MARKET STUDY

I prepared a Report for your Authority as at 20 December 2006 under reference S/06/6623. In view of the fact that there will be a further delay in the Examination of the core strategy taking place it was felt appropriate to re-visit the earlier Report. The intention being to comment on the changes which have occurred since the original Report was prepared and consider whether those changes mean it is appropriate to revise the conclusions reached in that Report. This updating has been agreed to be restricted to a limited letter Report.

Clearly when the original Report was prepared the property markets both, residential and commercial, were in periods of growth and hyperactivity. The situation now is very different. Since the earlier report there has been the International Banking crisis. One of the effects of this has been to stop lending on property and this coupled with the general economic crisis meant that for a period of time the property markets were not functioning at all. The current situation is that in this part of Hampshire the residential property market has become relatively robust although there are still a comparatively small number of transactions taking place. In general the difficulty being experienced by residential Estate Agents is in obtaining stock to sell rather than buyers to purchase. There are complex reasons for this which is not intended to go into in this paper. The commercial markets are also functioning albeit on a very reduced scale. It is very difficult to generalise but for the central Southern England area it is probably true to say that the majority of activity is in retail premises, partly because of changed spending patterns, with discount retailers such as 99p Stores aggressively expanding, and other retailers contracting or having financial problems stimulated in part by a reduction in retail discretionary spending and in part by increased use of the internet for individual retail purchases. The office and industrial markets are consistent but again a low level of enquiry. Values have realigned quite significantly. The investment markets are active with the difficulty being the availability of stock rather than purchasers.



In terms of the physical environment there is comparatively little change in the availability of office space in Romsey Town Centre as defined for the purposes of this Study. One might have expected with the economic climate that there would be significantly more space available but this has not proved to be the case as can be seen from the Appendix showing available space now and at the time of the original study.

In the original study comment was made on the lack of available stock and the fact that therefore a statistical analysis would be over influenced by an individual transaction to have a great deal of merit that it was better to rely upon general impressions and this still continues to be the case.

The following property is current on the market. In the Appendix there is a bar chart relating to the amount of space and number of properties comparing the situation now with that shown in the detailed study.

Address	Size	Time on Market
74 The Hundred, Romsey	500 sq ft	12 months
23 Market Place, Romsey	1165 sq ft	9 months
1 Portsbridge Mews, Romsey	1,025 sq ft	4 months
37A The Hundred, Romsey	624 sq ft	16 months
Suit 2, 35 The Hundred, Romsey	6,908 sq ft	42 months

The time property has been available on the market at the time of the last study was 20 months average. That figure is now 16½ months. There is however more space available than at the time of the previous report even if take up has improved. Only one property which was available at the time of the previous report is still available which is a positive indication of take up - all be it during a time part of which was of good economic conditions.

At the time of the last study a range of rental values was given for both in town and out of town offices and comparisons with competing centres principally Winchester and Chandlers Ford. Such generalised comments are always difficult but it is possible that the normal scenario of rents in less favoured locations being more volatile and dropping more quickly in a time of recession than those better located is still true but maybe offset by the supply factors. I set out below the comparisons:

	2007 Report	2009 Report
<u>In Town Rents</u>	<u>£</u>	<u>£</u>
Romsey	9-10	10
Winchester	12	14-15
Chandlers Ford	12	12.50
<u>Out of Town Rents</u>	<u>£</u>	<u>£</u>
Romsey	13	13
Winchester	16-17	17
Chandlers Ford	14.50	15

In practice one of the problems at the moment in even assessing what rents really equate to is the incentives being given by landlords and particularly the length of rent free periods. Traditionally when assessing a rental level one would disregard a rent free period given for fitting out i.e. one which was normal in the then market place. The difficulty now is that competing landlords, anxious amongst other things to avoid paying empty rates, are in some cases desperately seeking tenants and agreeing rent free periods just to avoid paying empty rates, insurance and other costs of occupation. How much of these incentives should be reflected in an analysis of the rent is open to some debate.

The fact that the Banks have been very unwilling to lend on property, and particularly property for development purposes, means that the conversion of properties from one use to another has been somewhat curtailed over the past couple of years. I believe the conclusions in the earlier report as still valid - that there would be demand for residential occupation over the shops in the centre of town if that accommodation was made available. However there is not a particular over supply of office accommodation and the employment that this generates, both directly and indirectly, in the town centre remains important. Car parking and congestion are less relevant worries now than they were a couple of years ago. This one of the results of the recession but one assumes this will only be a temporary change in demand function and as the economy become more buoyant so there will be more congestion and parking difficulties in town centres. There is increased interest in providing offices (and indeed residential dwellings) with level access to comply with disability legislation and aspiration. In the case of historic property in a Conservation Area there are limited opportunities for providing such access. This means there are certain bodies who, in practice, would not now relocate to the centre of an historic town because of an absolute requirement in this respect. The current situation is that these bodies are very limited in number and have not caused any distortion in the market, or changed rental level to be appropriate, unless one has the situation where there is only one potential occupier and that occupier has such a requirement when a landlord would be well advised to try to accommodate it if at all possible - even if costly.

The trend towards open plan offices is continuing with even occupiers who traditionally have sought cellular offices, such as solicitors, now taking open planned space and then dividing it themselves in a way which allows some flexibility to accommodate different working practices and allow flexibility for the accommodation. In addition there is of course a continued requirement for car parking by the majority of office users.

In all the circumstances therefore one can see a continued relative decline in demand for, and value of, period offices in town centres. Clearly there are a significant number of smaller firms who benefit from such accommodation and whose working practices are well suited to utilising it.

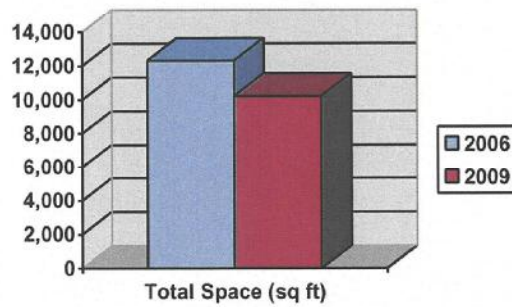
Currently there is limited economic potential to covert upper parts from office to residential. The costs are quite extensive and so whilst there is a greater residential end value than the existing office related value the conversion costs and the uncertainties, particularly in the current economic climate, have reduced the effective demand for doing so considerably.

Yours faithfully

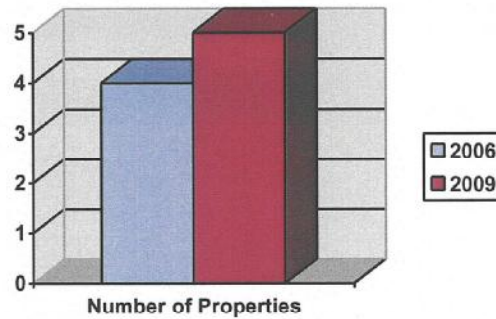
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TOWN CENTRE OFFICES : ROMSEY

Available stock in terms of total space



Available stock in terms of number of properties



Average time stock had been available

