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11 December 2024

Dear Wendy

## Penmaen Road, Pontllanfraith, Blackwood, NP12 2DY

As part of your pre-application process being undertaken with Caerphilly Council we understand that you require professional advice appraising the site and how it is positioned within the local and wider Industrial Market.

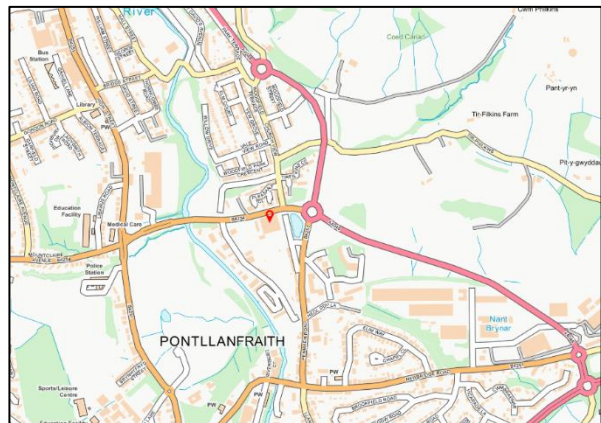
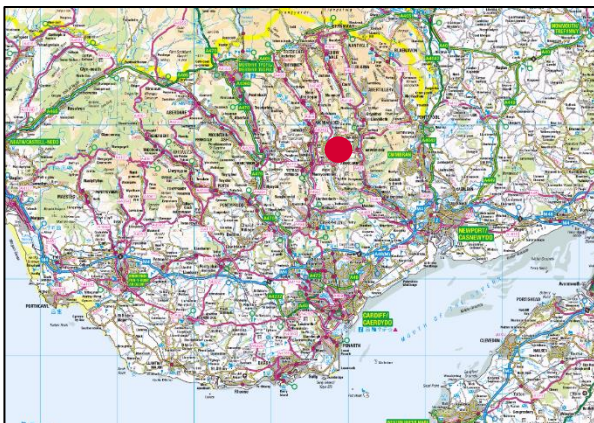
The following will provide a brief overview of The Site, commentary on the South Wales Industrial Market, availability within Caerphilly together with an overview of recent developments to provide evidence that there is a significant oversupply of employment land within the area and that The Site no longer meets the modern occupier requirements.

### Location

The Site is situated in Penmaen Industrial Estate, which is located in Pontllanfraith, Blackwood. It is 12 miles north of Junction 27 of the M4 Motorway and accessed via the A467 Dual Carriageway and the A472, which then links to the A4048. Blackwood is located less than 8 miles from Caerphilly, 13 miles from Newport and 17 miles from Cardiff.

The surrounding area comprises a mix of residential and industrial uses. Penmaen Industrial Estate does not benefit from traffic control measures on entry/exit of the site to the B4254 which results in congestion and delayed departure from The Site.

The site benefits from an immediate population of circa 18,000 with a catchment of circa 70,000 within a 10 minute drive time.



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## The Site

The Site comprises a detached industrial / workshop building providing single storey office / ancillary accommodation, measuring circa 33,500 sq ft, within a self-contained, fenced site that is mainly laid to tarmac and measuring approximately 1.80 acres.



The building within the site comprises a three bay unit is of steel frame construction with part brick / blockwork and part profiled metal clad elevations below a trussed roof incorporating translucent light panels. The parking and loading area is to the rear and impacted by a steep slope towards the main estate road and shared access way.

The property benefits from:

- 4m eaves height to underside of truss
- 7 no. level access roller shutter doors measuring 3.3m (w) x 3.5m (h)
- 3 no. level access roller shutter doors measuring 3.3m (w) x 3.8 (h)
- Fluorescent strip lights
- 3 phase power
- Reception and WC facilities



## Issues

During our inspection we noted the following that impacts the marketability and demand for this type of building. These are listed below:

## Height

Whilst the property is of a size that is popular within the market the clear height of 4m is an issue for the modern industrial / warehouse occupier who now ideally require a minimum eaves of 6m, and ideally over 8m. This is why newer developments such as Indurent Park, Newport and Axis 32 in Coryton (listed below) have been able to secure occupiers of similar size space at premium rents.

## Access

Vehicular access is achieved via Penmaen Industrial Estate. One constraint is the access onto the B4254 as there are no traffic control measures at the intersection, which leads to regular congestion, particularly for HGVs.

## Obsolescence & Condition

Whilst the roof has been upgraded over the years buildings configured over a number of bays can have issues with water ingress during heavy storms as the valley gutters between each bay are not constructed to withhold such a deluge. We understand that this has been an issue with The Site and will be a continued cost and maintenance consideration for any ingoing occupier.

In addition all the offices are in need of refurbishment and the electrics need stripping back and a full re-wire undertaken.

## Wales Industrial Market

The take up of large industrial property in Wales reached 342,000 sq ft in the third quarter of the year. This level of activity for properties over 50,000 sq ft showed a drop from the 680,000 sq ft take up for Q2 this year, but means that over 1.35 m sq ft has been transacted so far in 2024, which positively is a similar level as the same period in 2023.

The Q3 take up comprised five transactions, all of which were leasehold deals, with three in South Wales and two in the North. The largest transaction of the quarter was the letting at SWDC, Kenfig of 77,000 sq ft to Roche Logistics.

The general sentiment is that the market slowed due to the election and a quieter summer as a result. Also, increased due diligence is leading to transactions taking longer to complete with both occupiers and lenders seemingly being more cautious. This is adding months to deal timelines and is not only an issue for 50,000 sq ft plus industrial properties.

On a positive note, we are seeing headline rents for prime space continue to increase. The final 42,000 sq ft unit on Phase 3, Indurent Park, Newport, has been let for a new estate headline rent.

Availability of large industrial units in Wales now stands at approximately 5.3 million sq ft, representing a marginal 1.3% increase on the previous quarter. Of that space, 16% is represented by the 850,000 sq ft Wilko unit at Magor, which is under offer to a Data Centre operator.

Grade A space is still limited and of the available large units in South Wales, both the 52,000 sq ft RYB 1 at Ebbw Vale and the 105,000 sq ft Unit 10 at Indurent Park, Newport, are under offer and due to complete in Q4.

There is definite shortage of good quality space close to the M4 of and those landlords that have refurbished their units to a high standard are witnessing good levels of demand whereas poorer quality units, within secondary locations, are starting to see the interest and rents decrease.

## Industrial Agency Stats

The IAS Take-Up Statistics represent all deals on industrial buildings and land in South Wales. The data is collated from commercial agents within the region.

- Q2 2024 take up totals sq ft 582,982 sq ft
- 69 deals, up from 48 transactions last quarter
- Largest deal is the 77,538 sq ft letting at South Wales Distribution Centre, Kenfig
- No deals over 100,000 sq ft
- 7 deals between 25,000 sq ft - 100,000 sq ft
- 35 deals below 5,000 sq ft
- 10 land / open storage deals
- Total for 2024 is 1.8 million sq ft

## IAS Take-Up Stats - Caerphilly

We have reviewed the IAS Stats for take up within Caerphilly for the past four years and can confirm the following:

Size (sq ft)	2021	2022	2023	2024
0 - 2,500	1	7	4	2
2,500 – 5,000	5	5	4	-
5,000 - 10,000	2	2	4	3
10,000 - 30,000	2	1	3	1
30,000 +	2	-	3	2
<b>Total</b>	12	15	18	8

## Trends

In analysing all these stats it is clear there is continued demand for both small business units (typically under 2,000 sq ft) and mid box units, which in Wales we generally class as being 20 to 80,000 sq ft.

A worrying trend we have witnessed this year is struggles with the multi-let market (3,000 sq ft to 10,000 sq ft) which is seeing increased availability with transaction volumes and rents for these sizes decreasing but positively it is presenting landlord with opportunities to refurbish and reposition their stock.

### Small Business Units

This type of development is generally being built out in phases on sites of between 1 and 2 acres and offering units of sub 1,500 sq ft.

Typically the design and layout focuses on occupiers who do not require large amount of circulation and deep loading yards. This has meant the developers have been able to maximise the developable area to 50% site density as opposed to the market standard 40%.

As will be evidenced below, costs of building, rental returns and the yields secured for such developments means that many locations in South Wales are not viable options for such schemes.

### Mid Box Units

For mid box units it is clear occupiers know what they want, more height, deeper yards, efficient power systems and ESG compliant buildings, ideally close to M4 motorway.

The most successful development of such sizes has been Indurent Park at Llanwern, Newport (formerly St Modwen Park) where over the past three years they have constructed 9 units from 15,000 sq ft to 110,000 sq ft, taking their spec total to over 600,000 sq ft.

On Phase 3 & 4 the first letting secured a headline rent of £8.50 per sq ft and gradually, deal by deal, this has increased to the point where the latest letting achieved £9.75 per sq ft.

The table below details recent lettings of Mid Box Units within South Wales:

Property	Size	Occupier	Sector	Date
Indurent Park Newport	16,000	Ureka	Warehouse	Jan 2023
Pencoed Junction 35	52,000	Argos	Warehouse	April 2023

Indurent Park Newport	24,000	Solus	Vehicle repair	August 2023
Indurent Park Newport	51,000	JLI Trading	Warehouse	Sept 2023
Indurent Park Newport	32,000	Agrisense	Production	Jan 2024
Indurent Park Newport	110,000	Aerfin	Production	March 2024
Rhyd-y-Blew Ebbw Vale	52,582	Halton	Production	May 2024
Indurent Park Newport	43,000	Undisclosed	Distribution	Sept 2024
Axis 32 Coryton	36,000	Alliance Auto	Distribution	Feb 2025

What is interesting is that of two of these occupiers have relocated from in and around Caerphilly (Aerfin and Agrisense), which demonstrates that the comments on their requirements are fully justified and evidenced.

## Competition

To understand how The Site compares within the local market below outlines availability within the Borough:

Unit	Size (Sq ft)	Price	Comment
Chapel Farm Industrial Estate, Cmwcam, NP11 7BH	15,000 to 30,800 sq ft	POA	<ul style="list-style-type: none"> <li>Industrial units with yard and office accommodation</li> <li>Available on a leasehold basis</li> <li>Similar quality as subject property</li> </ul>
Border 9, Croespenmaen Industrial Estate, Crumlim, NP11 3AG	33,099 sq ft	POA	<ul style="list-style-type: none"> <li>Detached storage/production facility</li> <li>Office accommodation</li> <li>Fenced yard area with parking for 30 vehicles</li> <li>Total site area of 4.80 acres</li> <li>Better quality than subject property</li> </ul>
Unit 1 Oakwood Close, Pen-y-Fan Industrial Estate, NP11 3HY	70,707 sq ft		<ul style="list-style-type: none"> <li>Freehold</li> <li>Vacant possession</li> <li>Self-contained, detached warehouse facility</li> <li>6.2m minimum eaves</li> <li>Located on the established Pen-y-Fan Industrial Estate</li> <li>Better quality than subject property</li> </ul>
Unit 4 Parkway, Pen-y-Fan Industrial Estate, NP11 3XT5	52,115 sq ft	£235,000 per annum	<ul style="list-style-type: none"> <li>Available on a leasehold basis</li> <li>Detached industrial unit on self-contained site</li> <li>Minimum eaves height of 7.5m</li> <li>Located within an established business location</li> <li>Self-contained site of approximately 6.23 acres</li> <li>Better quality than subject property</li> </ul>
Prince of Wales Industrial Estate, Darren Drive, Abercam, NP11 5AR	16,250 sq ft	£104,000 per annum	<ul style="list-style-type: none"> <li>Available on a leasehold basis</li> <li>New building</li> <li>Eaves height of 6.5m</li> <li>8 surface level loading doors</li> <li>Secured fenced site</li> </ul>



As demonstrated with the Mid Box Evidence above an occupier of space of circa 30,000 sq ft will not just Caerphilly and widen their search and include buildings close to the M4. Such options that compete with The Site include:

Unit	Size (Sq ft)	Price	Comment
Units A1 & A2 Gellihirion Industrial Estate, Pontypridd, CF37 5SX	22,445 sq ft	POA	<ul style="list-style-type: none"> <li>• Detached warehouse unit</li> <li>• Fenced yard of circa 0.7 acres</li> <li>• Available on a leasehold basis</li> <li>• Minimum eaves height of 5m</li> <li>• 0.5 miles away from A470</li> </ul>
Unit A Moy Road Industrial Estate, Taffs Well, CF15 7QR	21,451 sq ft	POA	<ul style="list-style-type: none"> <li>• Purpose built detached warehouse with office</li> <li>• Available on a leasehold basis</li> <li>• Adjacent to A470 and 1 mile from J32 of the M4 motorway</li> <li>• Large, surfaced yard</li> <li>• Minimum eaves of 4.7m</li> <li>• EPC C</li> </ul>
Units 1 & 2 Avana Business Park, Rogerstone, NP10 9FQ	44,403 sq ft	POA	<ul style="list-style-type: none"> <li>• Fully refurbished, open plan warehouse</li> <li>• Available on a Leasehold basis</li> <li>• Eaves height of 4.5m</li> <li>• Secure yard</li> <li>• EPC C</li> <li>• Located less than 1.5 miles from J28 of the M4 motorway</li> </ul>

## Developer Requirements

In addition to occupier demand, and as mentioned above, the market has also witnessed an increase in developer demand or smaller workshop developments. Their requirements are generally as follows:

- **Site Size** – initially focus on 1 to 2 acre site
- **Site density** – generally 40% to 45%
- **Shape** – the more regular in shape the easier it will be to design and ensure maximum site density
- **Accessibility** - easily accessible for commercial vehicles and ensure estate roads are clear from congestion

Other constraints facing any current development is the rising construction costs (now £110 per sq ft plus for such developments) and Sustainable Drainage Systems (SuDS), which whilst designed to manage storm water locally and considered to be environmentally beneficial, are costly when incorporating into an appraisal.

As a result of these high development costs developers are seeking locations close to the M4 which can attract the higher rents outlined above.

## Caerphilly – Land Availability

Having examined the above, we have identified a number of development sites that are available within the Borough and offer better located plots with less constraints than the subject site. The general capital values for land in Caerphilly have fluctuated between £125,000 and £200,000 per acre and within the area we are currently aware of the following being available:

### Pantglas Industrial Estate, Bedwas

There are currently two 2 acre sites available at the entrance to this well-established commercial location. On the southern site the developer is currently awaiting planning for a small workshop / business unit scheme.

On the northern section, a separate developer, is progressing planning on three larger units of between 15,000 sq ft and 20,000 sq ft. Indications are that the build costs are too expensive for them to progress at this current time.

## Oakdale Business Park – Plateau 2

This Council owned plot is located to the south of the popular Oakdale Business Park. We are not aware that it is being formally marketed but understand discussions have taken place with occupiers for various plots. There is circa 20 acres available though infrastructure works will be required to allow for development. Knight Frank acted for Senior Flexonics in 2018 when they were going to acquire 2 acres adjacent to General Dynamics. The build costs made their 25,000 sq ft proposed HQ facility unviable and they did not progress.

## Oakdale Business Park – Plateau 4

This plot of land is to the north of the business park, located within 5 minutes of Blackwood town centre and owned by the Council. It provides a gateway into Oakdale Business Park, and there are further developments proposed for this site with 8 acres remaining.

## Foxes Lane, Oakdale

This is another Council owned plot measuring circa 5 acres. The surrounding occupiers are offices so any use needs to compliment these occupiers. We are aware that Castle Diaries had been in discussions to develop a new 50,000 sq ft production facility in the past but their new build project was withdrawn due to the rising construction costs and their extensive fit out requirements.

## Ty Du, Nelson

There are currently three plots available for development. From 0.6 to 3.5 acres. All are fully serviced and have infrastructure in place to allow for immediate development. The quoting price is £150,000 per acre. There is interest and detailed negotiations on the larger site from a local developer, due to the success of Whitebeam Court. Having undertaken appraisals though they require grant assistance to make any new build viable and are currently in discussions with Development Bank of Wales on this shortfall.

## Tredomen Road, Tredomen

There is over 20 acres of greenfield land to the north of Tredomen Road. Privately owned the developer is currently in discussions to have the site included in the Local Development Plan for commercial uses. This is in close proximity to Ty Du, Nelson which has proved popular for new build units in the past.

## Development Appraisal

To assist in providing further evidence of the difficulties currently faced for new build in secondary locations we have prepared three different brief Development Appraisals which follow the requirements listed above for both occupiers and developers.

### Single Let Mid Box Unit

Gross Development Value	30,000 sq ft	@	£80 per sq ft	£2,400,000
Minus Land Acquisition	1.8 acres	@	£150,000 per acre	£270,000
Minus Site Clearance		@		£250,000
Minus Build Costs		@	£100 per sq ft	£3,000,000
Contingency		@	5% Build Costs	£150,000
Professional Fees		@	10% Build Costs	£300,000

This provides for a deficit of **£1.57 million** before you consider the phasing / financing of the development. It also excludes profit on Gross Development Value (usually 15%), planning and services infrastructure.

### Small Business Unit - For Sale

<b>Gross Development Value</b>	<b>30,000 sq ft</b>	<b>@</b>	<b>£150 per sq ft</b>	<b>£4,500,000</b>
Minus Land Acquisition	1.8 acres	@	£150,000 per acre	£270,000
Minus Site Clearance		@		£250,000
Minus Build Costs		@	£110 per sq ft	£3,300,000
Contingency *		@	7% Build Costs	£231,000
Professional Fees		@	10% Build Cost	£330,000

\* This is higher due to the Multi Let Phases and the risk involved

This provides for a development that just about breaks even but this is before you consider the phasing / financing of the development. It also excludes profit on Gross Development Value (usually 15%), planning and services infrastructure.

### Small Business Unit - For Let

<b>Gross Development Value</b>	<b>30,000 sq ft</b>	<b>@</b>	<b>£7 per sq ft</b>	<b>£240,000 per annum</b>
		@	<b>7% Net Initial Yield</b>	<b>£3,400,000</b>
Minus Land Acquisition	1.8 acres	@	£150,000 per acre	£270,000
Minus Site Clearance		@		£250,000
Minus Build Costs		@	£110 per sq ft	£3,000,000
Contingency *		@	5% Build Costs	£231,000
Professional Fees		@	10% Build Cost	£330,000

\* This is higher due to the Multi Let Phases and the risk involved

This provides for a deficit of **£1 million** before you consider the phasing / financing of the development. It also excludes profit on Gross Development Value (usually 15%), planning and services infrastructure.

In addition, you need to consider that we continue to see a rise in construction materials together with a softening of commercial yields and stricter lending criteria, all of which would impact the deficit even further.

## Conclusions

In our opinion the above clearly demonstrates that there is a significant supply of employment land within Caerphilly County Borough.

In addition, as evidenced above there is also a large number of industrial units on the market, comparable in size and location yet with better accessibility, eaves height and level of refurbishment than the subject. It is likely occupiers looking for space would favour these opportunities over the subject site.

If you wish to discuss any of the matters raised please do not hesitate to contact me direct.

Yours sincerely



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