

**AN ASSESSMENT OF  
THE SUPPLY AND DEMAND FOR  
OFFICE ACCOMMODATION AND B1 EMPLOYMENT SITES  
IN GWYNEDD AND ANGLESEY**

**Client – Grwp Llandrillo Menai**

**8<sup>th</sup> June 2020**

**Prepared By:  
Stephen C Wade BSc (Hons) MRICS**

**LEGAT OWEN  
ALBION HOUSE  
ALBION STREET  
CHESTER  
CH1 1RQ**

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## 1. INTRODUCTION

We have been instructed by Grwp Llandrillo Menai (GLM) to prepare a report in relation to the market for B1 office premises and B1 employment land in Gwynedd and Anglesey.

The report is required to inform a planning application for a vacant office building known as Ty Menai, situated at Parc Menai, Bangor.

Grwp Llandrillo Menai are proposing a change of use from Class B1 Use (Offices and associated store) to Class D1 Use (Educational non-residential establishment).

We set out below our report and observations.

## 2. LEGAT OWEN

Legat Owen is a multi-disciplinary firm of Chartered Surveyors with offices in Chester and Nantwich, Cheshire. The company was established in 1986 and provides a full range of commercial property services including sales and lettings, investment agency, commercial property management, valuation and building surveying. The practice has a compliment of 21 Chartered Surveyors and 40 staff and is the largest commercial property consultancy operating on a day to day basis in Cheshire and North Wales.

The report has been prepared by Stephen Wade, a director of Legat Owen. Stephen joined the company in 1994 and has over 25 years' experience of the North Wales commercial property market. Stephen has a background in the sale, letting and development of employment land and property. Stephen has served as a Board member of Anglesey Enterprise Zone, Deeside Enterprise Zone and the private sector advisory group to the North Wales Economic Ambition Board at the invitation of the Welsh Ministers. Stephen acts for a range of public and private sector clients across North Wales and is regularly called upon to provide market evidence-based reports on their behalf.

Stephen has previously advised Welsh Government on the marketing of their North Wales property portfolio which included the subject property and the wider Parc Menai Business Park. Stephen does not currently hold instructions from Welsh Government and there is therefore no conflict of interest in preparing this report.

## 3. BACKGROUND

GLM was established in 2012 as a result of mergers between Coleg Llandrillo, Coleg Menai and Coleg Meirion-Dwyfor. It employs 2,000 staff and offers courses to around 27,000 students across Anglesey, Conwy, Denbighshire and Gwynedd.

GLM have an ambition to improve and enhance the quality of their teaching accommodation in the Bangor area. Their current campus at Ffriddoedd Road is in very poor condition and is no longer suitable for student learning. GLM have identified Ty Menai, a vacant, detached office building at Parc Menai as the best solution to meet their needs.

GLM currently occupy a terrace of light workshop units elsewhere on Parc Menai and these would be retained to supplement the proposed facility at Ty Menai.

Ty Menai is currently within the ownership of Welsh Government.

#### **4. TY MENAI**

Ty Menai is a detached, two storey, office building constructed in 2006 as part of the Technium programme undertaken by Welsh Government. The building was intended to provide a centre for advanced software technology whereby hi-tech companies would cluster together. The development was undertaken with support from Bangor University who were looking to support the creation of new start-up companies in the software sector.

The building, which is set within a mature landscaped setting, incorporates a double height glazed entrance/reception giving access to a range of office suites of varying sizes at both ground and first floor. The property incorporates a bespoke lecture theatre, a restaurant / café and extensive plant rooms. Ty-Menai also benefits from a large car park adjacent to the entrance to the property.

Unfortunately, Ty Menai has never achieved its anticipated potential as a Centre for Advanced Software Technology and more latterly Welsh Government have abandoned their Wales wide Technium programme. This has left Ty Menai in a state of flux. Welsh Government engaged in an active marketing programme to re-let the vacant space, but this was a challenging process with only limited interest in the building. Elsewhere in Wales, Welsh Government have pursued a policy of selling their buildings within the Technium programme and we understand this is the last remaining Technium facility within their ownership.

Since its inception the building has always struggled to attract occupiers and following the recent completion of M-Sparc at Gaerwen on Anglesey a number of the former tenants have vacated and relocated to this new facility which is being developed in partnership with Bangor University. Ty Menai has been vacant since January 2020 with the last few remaining tenants relocating to vacant floorspace elsewhere on Parc Menai. The building is somewhat tired in appearance and needs major capital investment in mechanical and electrical plant and equipment to ensure it retains its operational capabilities.

The building suffers from several serious design flaws including a poor net to gross ratio, deep building floor plates (making it difficult to subdivide into smaller suites) and a lack of natural light in places.

The net to gross ratio is the relationship between the gross internal area of the building and the net lettable area. One would typically expect a net to gross ratio for a building of this size to be in the order of 80% - 82% but in this instance the net to gross ratio is less than 50%. In practice what this means is that the relatively small net lettable area is carrying the overheads for a much larger building. All of the common parts that cannot be let still have to be managed and maintained and this generates additional costs which in turn imposes an unrealistic obligation on prospective tenants in terms of the service charge liability for the building.

Moreover, the building is not aligned with the needs of the market and fails to address the occupational demands of small office occupiers seeking representation in North West Wales. The building is poorly designed and does not lend itself to its previous operation as a managed business centre. Individual room sizes are generally too big, and the floor plates are generally too deep at 30m. What this means in practice is that it is difficult to create smaller office suites for SME start-ups / company expansion. This is because if you subdivide the space you would be left with very long narrow office suites accessed off the central core and/or suites with no natural light both of which are very difficult to let. We have previously acted as letting agent for Welsh Govt for the building and we are well versed in the challenges that the building presents from a letting perspective. At first glance it presents well with an impressive double height atrium and generous common parts but it is when you drill down into the detail that the occupational challenges become more apparent.

One of the key issues with the building is its operating costs. Welsh Government have advised us that the annual running costs for the building are in the region of £750,000 - £800,000 per annum (This does not allow for badly needed capital investment in plant and machinery). The net lettable area of the building is 37,639 sq ft and this results in an annual service charge liability of £20 per sq ft! You would normally expect the service charge for a building of this nature to be in the region of £6-£8 sq ft. What this means in practice is that the service charge is so expensive that the building is unlettable without a significant, annually recurring, financial subsidy from Welsh Government. To attract tenants to the building Welsh Government, have, until recently had to subsidise more than 50% of the annual running costs. In other words, they were paying their tenants to occupy the building! This is not a sustainable long-term position and therefore Welsh Government have taken the decision to close the building and mothball it rather than continue to keep it operational. The building has now been vacant since January 2020

As I have identified above, the mechanical and electrical systems within the building also require further investment to make them operational. Welsh Government have identified essential maintenance costs of approximately £500,000 + VAT to deal with the upgrade of the lighting, fire alarm system and air handling system. The biggest investment is needed urgently in the air handling plant which is in part non-operational. From a commercial perspective it is difficult to justify this investment given the nature of the space and its configuration.

Given the design flaws, the net to gross ratio, the inflated operating costs and the need for significant investment in renewing redundant plant and machinery it is inconceivable that any prudent private sector organisation would be willing to take on the building either for owner occupation or to run as managed workspace. The building has become something of a “white elephant” and now needs to be repurposed.

Ironically, however the design of the building with large areas of communal space, a lecture theatre and large restaurant lends itself ideally to further educational use. This is one of the reasons why Grwp Llandrillo Menai have identified the building as being suitable for the proposed relocation of their Bangor facility.

The nature of the property is more particularly illustrated in the attached photographs (Appendix 1).

The extent of the property is shown edged red on the attached site plan (Appendix 2).

## 5. PLANNING CONTEXT

It is not within the remit of this report to provide a detailed planning commentary.

In summary planning policy is guided by the Anglesey and Gwynedd Joint Local Development Plan (JLDP) 2011-2026, which was adopted on the 28th July 2017. The plan covers the period 2011-2026.

Section 6 of the Plan – Managing Growth and Development – Economy and Regeneration, sets out the policies for employment for economic growth and establishes the framework for employment land supply.

Parc Menai is identified as a Primary Employment Site as identified in the adopted Anglesey and Gwynedd JLDP and has the status of a Strategic Sub Regional Site (Secondary), being allocated for B1 use classes.

The relevant policies in this instance are:

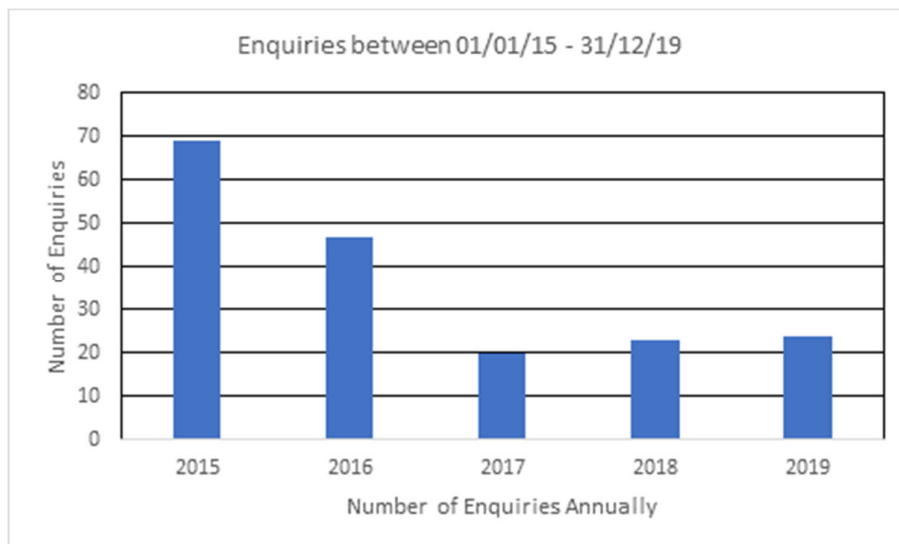
Policy CYF 1: Safeguarding, allocating and reserving land and units for employment use	Land and units on existing employment sites listed below are safeguarded for employment/ business enterprises and are shown on the Proposals Map.
Policy CYF 5: Alternative uses of existing employment sites	<p>Policy CYF5 states that proposals to release land on existing employment sites safeguarded for Use Classes B1, B2 or B8 in accordance with Policy CYF1 for alternative uses will be granted only in special circumstances, provided they conform to one or more of the following criteria:</p> <ol style="list-style-type: none"> <li>1. If the site is vacant, that it is unlikely to be used in the short and medium term for the original use or the safeguarded use and there isn't a viable business or industrial use for the site, or</li> <li>2. There is an over provision of employment sites within the vicinity, or</li> <li>3. The current employment use is having a detrimental effect on amenity and the environment, or</li> <li>4. The proposal would not have a detrimental effect on employment uses at adjacent sites, or</li> <li>5. There is no other suitable alternative site for the proposed use, or</li> <li>6. If the site is used in the short term (on a temporary basis) it should be assured that there are appropriate restoration measures in place to the satisfaction of the Local Planning Authority.</li> </ol>

## 6. OFFICE DEMAND AND SUPPLY IN GWYNEDD AND ANGLESEY

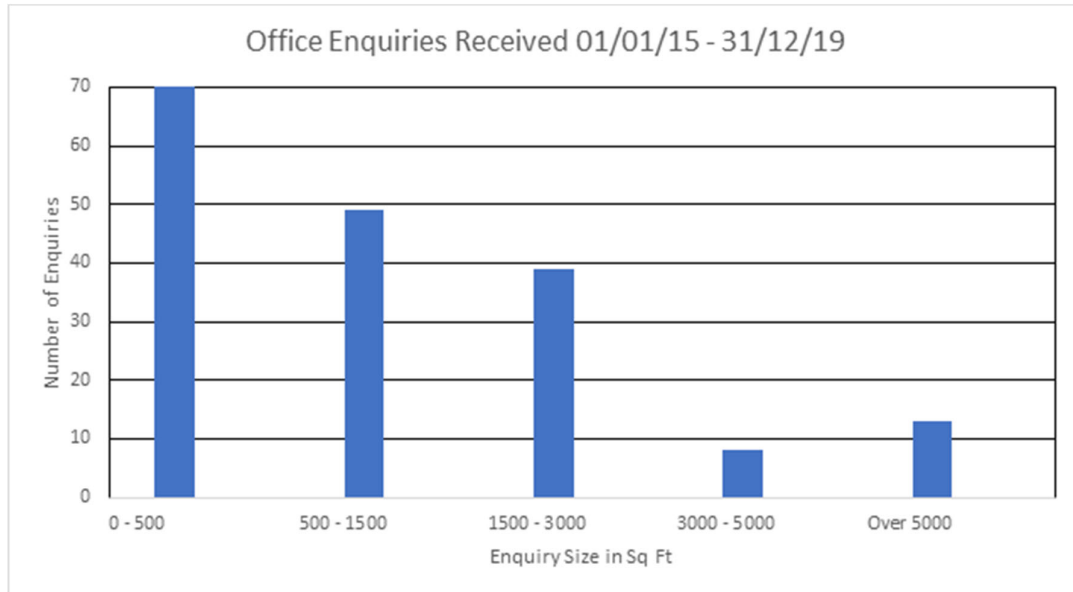
### Demand

We carefully record all enquiries received for office accommodation on a County by County basis using Agency Pilot a bespoke commercial agency CRM system. Enquiries are recorded by size range, tenure, date, geographical location, and use.

We set out in the chart below a breakdown of the enquiries received for office accommodation for both Anglesey and Gwynedd combined for the period from 1st Jan 2015 to 31<sup>st</sup> December 2019. The chart records the total number of enquiries received for office accommodation annually for the five year period. The chart indicates that office demand is actually falling in Anglesey and Gwynedd. This accords with our own perception of the market and in part reflects the significant contraction in demand for office accommodation from the public sector in particular. It is also symptomatic of improved broadband connectivity in the North Wales region which allows people the potential for homeworking and remote working. This is a pattern of demand we are seeing elsewhere in North Wales and is not particular to Anglesey and Gwynedd.



We then sought to break down the demand into size bands. This helps to illustrate the nature of the market and the quantum of demand within the market. We have set out in the chart below a breakdown of enquiries by size for the period 1<sup>st</sup> Jan 2015 to 31<sup>st</sup> Dec 2019.



Over this 5-year period we recorded a total of 183 enquiries for office accommodation. This is then broken down into size bands. From this analysis the largest number of enquiries is for office suites in the size range 0 – 500 sq ft. The next largest total being 500 – 1,500 sq ft. Of the total number of enquiries 123 were for office accommodation of 1,500 sq ft or below. This represents 67% of the total market. This profile of demand is in keeping with the wider North Wales market where most of the demand is for companies/organisations employing less than 10 people. If you adopt an average floor space requirement of 100 sq ft per person, then you would typically expect the majority of the enquiries to be for suites of less than 1,000 sq ft (assuming the largest category being 0-9 employees).

It is also important to appreciate that the enquiries referred to above do not necessarily all translate into lettings. There are lots of reasons for this, examples include, companies will register interest in property and then choose not to move, or an agent could undertake a search of available property to support a valuation. Typically, 1 in 10 requirements translates into a letting in any one calendar year. What this means in practice is that the demand is relatively low when compared to Flintshire and Wrexham. By way of illustration we recorded a total of 721 office enquiries for Flintshire and Wrexham over the same five-year period.

What the enquiry analysis also suggests is that any new property coming to the market should be orientated very much towards start-ups and smaller companies as this is where the bulk of the demand emanates from. For the reasons stated above Ty Menai is just not capable of addressing this potential market.

Smaller occupiers are driven by several factors when leasing floorspace including cost, suite size, flexibility of tenure, availability, image and appearance. Ty Menai falls at the first hurdle on cost and suite size. It is just too expensive for most SME's and in any event the building can't be configured in a way that would deliver the majority of the suites at a size of less than 1,500 sq ft.



What Gwynedd needs is a new purpose-built serviced office centre designed to meet the needs of start-ups and small SME's. These managed business centres generally prove to be popular with occupiers and provide the springboard that they need to allow their business to grow without incurring significant occupational risk.

Historically the predominance of demand for offices over 5,000 sq ft has been driven by the public sector. As a consequence of the recession and the austerity measures which followed, head count in the public sector has reduced significantly over the last 5 years and so in turn has their requirement for office accommodation. This has had a twofold impact on the market, firstly public sector requirements for new office space in North Wales have reduced significantly and at the same time the public sector has been rationalising its floor space and as a consequence has increased the supply of office stock coming to the market. Examples in North Wales include, Welsh Government offices in Caernarfon, HMRC offices in Bangor, Welsh Government offices at St Asaph Business Park and Careers Wales in Mold. Office based, private sector organisations in Wales tend to be of a small scale and demand from the private sector for suites of 5,000 sq ft or above is very limited. What this means in practice therefore is that there are now very few requirements in the market in any one year for office suites of 5,000 sq ft and above across the wider North Wales market. This lack of demand is illustrated by Welsh Government's recent experience at North Penrallt in Caernarfon. Despite an extensive marketing campaign GVA Grimley have been unable to attract any office occupier demand to the former government buildings situated close to Caernarfon town centre. The building which extends to just over 41,173 sq ft is now being sold for conversion to residential use. This lack of demand discourages landlords from investing in the refurbishment of their office real estate as the risk of failing to attract sufficient tenant demand is significant.

A review of our office enquiries for Anglesey and Gwynedd since 2015 indicates that there was no single enquiry for office accommodation over 20,000 sq ft. Given the position in relation to existing office buildings in the market referred to above and our own analysis of demand, it is unrealistic to expect that the building would be taken up by a single occupier particularly when you factor in the design flaws and operating costs referred to above.

It was anticipated that the development of Wylfa Newydd would create increased demand for offices, industrial floor space and employment land in North West Wales. Unfortunately, the recent decision from Hitachi to withdraw from the project will have an inevitable impact upon demand for all three sectors. Whilst there are other innovative projects being developed, particularly in the low carbon sector, these are some way from fruition and there is no evidence of any emerging demand for office floor space in the near term. This is illustrated by the fact that Welsh Govt have been unable to find a buyer for Unit 3 Parc Bryn Cefni in Llangefni. The detached building extends to 11,434 sq ft and is being offered for sale for a price of £500,000. Less than £50 sq ft. The property has been on the market for approaching a year and despite extensive marketing Cooke and Arkwright have been unable to find a buyer.

The market will almost certainly deteriorate further as a consequence of the Covid-19 outbreak and subsequent lockdown. The RICS UK Commercial Property Survey Q1 2020 key points are:

- Near term rental and capital value expectations turn negative
- Sentiment deteriorates across all sectors, albeit industrial is more resilient than retail and offices
- Headline twelve-month projections also negative, although medium term expectations less downbeat away from retail.

In a recent interview with the BBC the Chancellor Rishi Sunak has said, “it is very likely that the UK is in a significant recession” as the figures show the economy contracting at the fastest pace since the financial crisis.

It is realistic to assume that there will be some company failures in the service sector in Anglesey and Gwynedd as a consequence of Covid-19 and experience of previous recession suggests that in the near term the supply of office accommodation is likely to increase.

It is also a fact that the lockdown has driven companies to adopt more flexible working practices including remote working and home working. Whilst this is unlikely to remove the need for an office completely it will have far reaching consequences on the future demand for office space as companies look to work more flexibly in order to offer a better work life balance and reduce costs.

We are already seeing examples of companies actively encouraging their teams to work from home either on a part time or full-time basis. This reduces operational costs by reducing overheads and is also proving to be attractive to employees who avoid the unnecessary commute to and from the office. It is too early to say yet exactly what the impact of Covid-19 will be on the office market, but we firmly believe that there will be an overall net reduction in office occupation in the short to medium term.

In locations such as Gwynedd and Anglesey where demand is already relatively weak a change in working practices will further dampen the demand for office accommodation.

### **Supply**

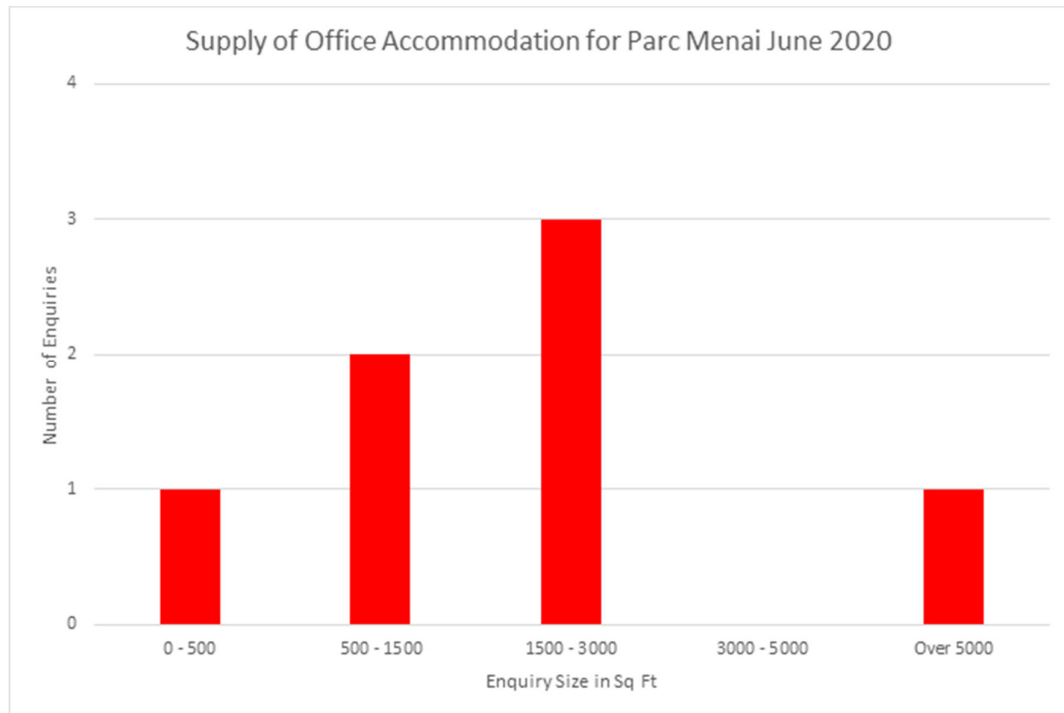
Parc Menai has acted as the focal point for the supply of new office accommodation for the Anglesey / Gwynedd area over the last 15/20 years. It is centrally located to the respective County's and sits alongside the A55 and in that regard is well placed to serve the surrounding sub regional area.

It is however by no means the sole source of office accommodation for the area. Public administration for Gwynedd is centred in and around Caernarfon with offices for both Gwynedd County Council and Welsh Government situated in the town. Llangefni is the administrative centre for Anglesey and hosts the offices of Isle of Anglesey County Council. Professional service businesses tend to gravitate towards the population centres and generally occupy town centre locations in Bangor, Caernarfon, Porthmadog and Llangefni. Anglesey Council also have a successful business centre in Llangefni and more recently the development of Menai Science Park (M-Sparc) at Gaerwen has emerged as a major challenger to Parc Menai.

In practice therefore the office provision for Gwynedd and Anglesey is spread across a number of key locations rather than being concentrated in one area.

According to our own research there are a total of 7 office suites available to let at Parc Menai at present ranging in size from 600 sq ft to 5,025 sq ft. Together they provide a total of 15,109 sq ft of floor space. This is broken down in the table below.

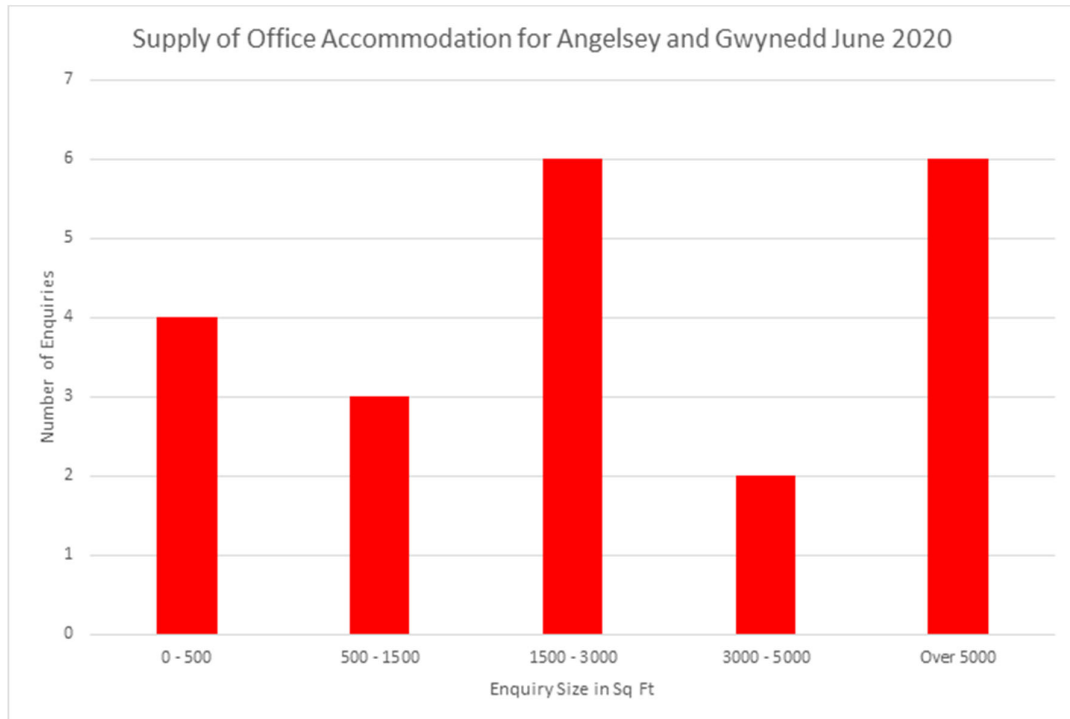
### Available Office Suites at Parc Menai June 2020



The pattern of supply at Parc Menai is aligned with the consistent demand profile for office suites in terms of size and availability. If this supply is taken up Gwynedd should seek to address emerging market need through the construction of a bespoke serviced business centre. This would be designed to meet the needs of new start-ups and small businesses through the provision of small serviced office suites typically ranging in size from 300 sq ft to 1,000 sq ft. This type of project would be an ideal solution to spearhead the development of Bryn Cegin nearby in Bangor with support from the Growth Deal Bid.

There is in addition a further 7,500 sq ft of office accommodation available at M-Sparc in Gaerwen only 6 miles from Parc Menai. M-Sparc (Menai Science Parc) is operated by Bangor University and as Wales first dedicated Science Parc which offers 31,200 sq ft of letting space configured as 45 offices ranging in size from 156 sq ft to 2,690 sq ft, 23 laboratories and 2 double height workshops. The aim is to provide growth and knowledge based science with a focus on low carbon energy, the environment and ICT sectors. The building has been finished to a very high standard and will undoubtedly act as a magnet for science, ICT and low carbon based occupiers looking for representation in Gwynedd / Anglesey.

In addition to the supply of Parc Menai and M-Sparc there are a range of office suites to let in the surrounding urban centres which will also act to bolster supply. The current supply position is set out in the chart below.



What the chart demonstrates is that there is a broad spread of availability across a range of suites sizes in Anglesey & Gwynedd.

## 7. DEMAND FOR AND SUPPLY OF B1 EMPLOYMENT LAND

Demand for employment land is a function of the demand for employment floor space. The greater the demand for employment floor space the greater the pressure on employment land supply and vice versa.

In July 2012 US Scott Wilson were commissioned to undertake an Economic and Employment Land Review for Anglesey and Gwynedd Councils to inform the preparation of the Joint LDP.

Whilst the report is somewhat out of date now some of the key findings are still relevant. The report identified that each Authority should provide 4 hectares per annum of employment land in accordance with the adopted spatial planning approach over the Plan period equating to a combined requirement of 112 hectares. At the time the total supply of employment land was estimated to be 332 hectares, almost three times the required land allocation.

In the intervening period the take up of serviced employment land in Anglesey and Gwynedd has been very disappointing. This fact is recorded in the Anglesey and Gwynedd Joint Local Development Plan – Annual Monitoring Report which notes that *“It is noted that the permission rate on safeguarded employment sites during this short period is lower than expected. It is considered that the Plan is a facilitator in terms of providing employment sites and that fewer applications for developments on the employment sites are likely to be based upon economic matters that are beyond the plans control.”* In our view, this is to be expected given the tapering in demand referred to above.

The downturn in the demand for larger office floor plates as a consequence of the UK Government's austerity programme and the viability gap associated with building speculative offices for smaller occupiers is such that there have been virtually no new office developments in North Wales in the last 5 years. The two projects of any significance were both public sector funded, namely M-Sparc at Gaerwen and Conwy Council's new HQ in Colwyn Bay.

Small businesses tend to want to commit for relatively short lease terms and are financially less stable than larger, more well established organisations with a stronger tenant covenant. What this means in practice is that it is difficult for the private sector to deliver a viable solution for the SME sector. This in turn has a direct impact upon the demand for serviced employment land.

From our own research we understand that there are four serviced plots available at Parc Menai which together provide a combined site area of 6.82 acres (2.76 hectares). These are shown edged red on the plan at Appendix 4. All 4 plots are fully serviced and have been available for development for at least 10 years. Approximately 3 miles to the east Welsh Government also have fully serviced development plots available at Bryn Cegin. The site has been serviced for the last 10 years and despite this, no development has been forthcoming. The site offers 9 plots which between them provide a total of 42.19 acres (17 hectares) with plots ranging in size from 2.25 acres (0.91 hectares) to 6.8 acres (2.75 hectares). These are identified on the plan at Appendix 5.

Nearby in Llangefni there are a range of serviced plots available at Parc Bryn Cefni and further to the west Welsh Government also have a range of serviced plots available at Parc Cybi.

In our opinion therefore there is a more than adequate supply of serviced employment land available to meet the needs of the market up to and beyond the end of the Plan period. The position in relation to Wylfa Newydd means that the position of excess supply will be further compounded as the potential demand associated with the supply chain has now fallen away.

## **8. CONCLUSIONS**

GLM have an ambition to improve and enhance the quality of their teaching accommodation in the Bangor area. GLM have identified Ty Menai as their preferred location for a new campus development at Parc Menai.

Ty Menai is currently vacant and requires significant capital expenditure to bring it back up to a standard capable of occupation for office use. Welsh Government estimate that the building needs a capital investment of £500,000 in the short term. The building suffers from a number of design flaws which means that it is very expensive to operate and is difficult to sub divide into small suites. Welsh Government took the decision last year to close the building and "mothball" it as it was no longer financially viable to operate it without a very significant public sector subsidy. As a consequence, Ty Menai is currently vacant and the asset is deteriorating.

Our research demonstrates that the demand profile for offices in North West Wales is very much geared towards new start-ups and small businesses. Over two thirds of the recorded demand over the last 5 years has been for office suites of 1,500 sq ft or below. This is not surprising given that the majority of the private sector businesses in Wales employ less than 10 people. An analysis of enquiries over the last 5 years indicates that we did not receive a single office requirement for a building in excess of 20,000 sq ft. It is unrealistic to assume therefore that it would be possible to identify a single occupier for the building. Even if it was, the design flaws referred to above and the exceptional operating costs will almost certainly deter any prudent business from proceeding further. In practice, Ty Menai does not address the needs of the market and there is no realistic prospect of it being used for office use in the short to medium term. It is for this reason, that it should be repurposed.

Our analysis has demonstrated that there is a health supply of serviced employment land in the market in North West Wales, a large proportion of which is within the ownership of Welsh Government. Given the recent withdrawal of Hitachi from Wylfa Newydd any pent up demand which existed (perceived or otherwise) has now dissipated to a point whereby supply exceeds demand.

In conclusion Ty Menai was never really suited for its intended purpose. Fundamental design flaws have rendered it incapable of office use on terms which are acceptable to the market. The building is currently vacant and will remain so unless it can be repurposed for alternative use. There is no shortage of serviced employment land in Anglesey and Gwynedd, most of which is owned by the public sector. Any larger scale office occupier will almost certainly look for a design and build solution in a new building capable of meeting the needs of a 21<sup>st</sup> Century occupier.

**Appendix 1**

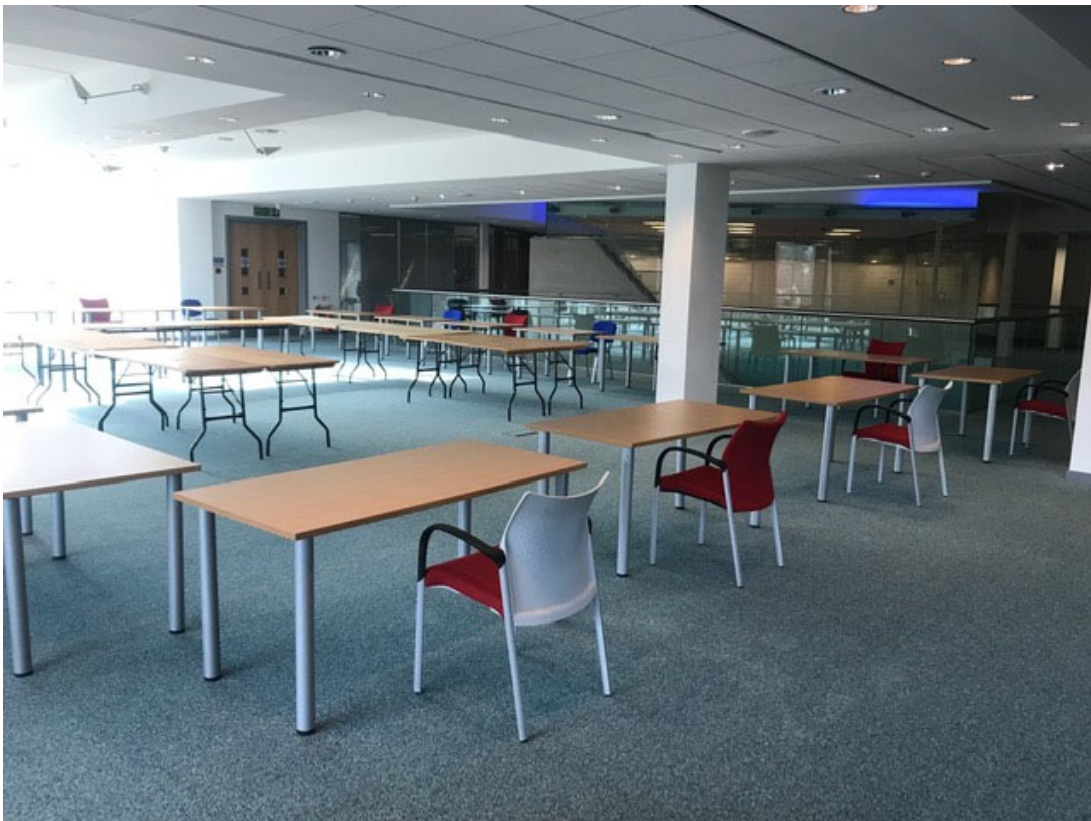
**Ty Menai Photographs**





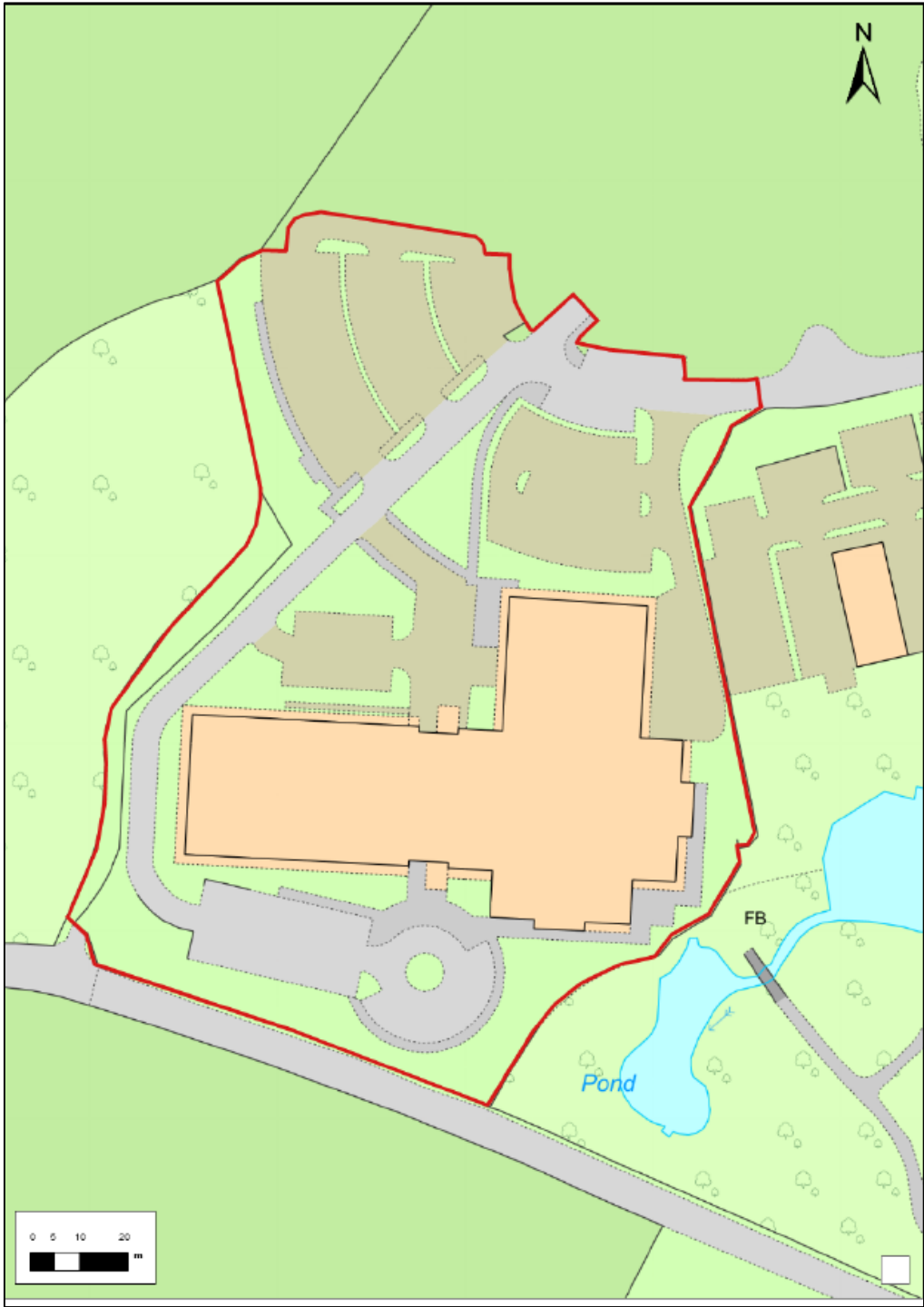






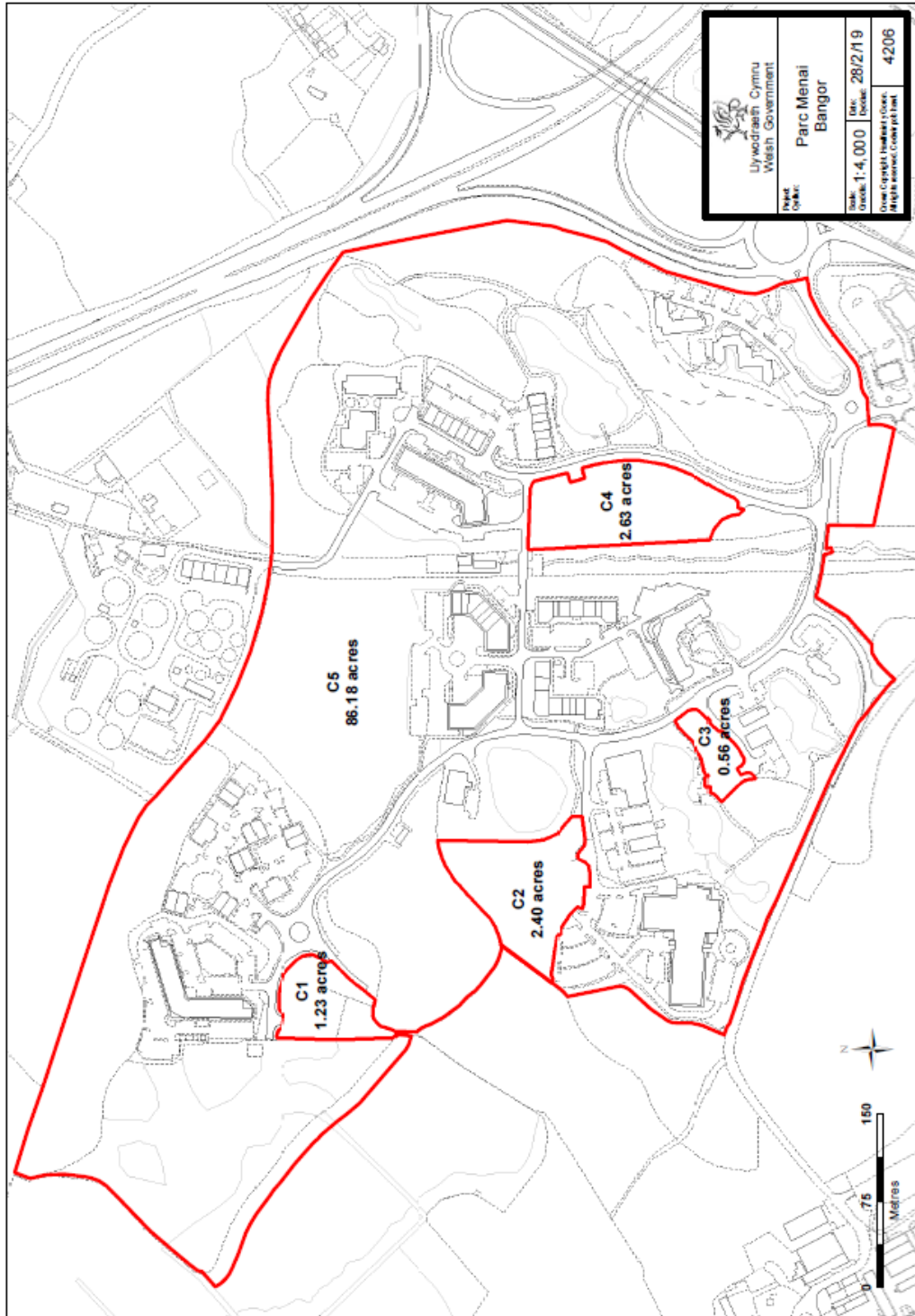
## Appendix 2

### Site Plan



### **Appendix 3**

#### **Serviced Employment Land Available at Parc Menai**



## **Appendix 4**

### **Serviced Employment Land Available at Parc Bryn Cegin**



