EMPLOYMENT LAND REVIEW

RANGE NORTH
CHILDERDITCH INDUSTRIAL PARK
LITTLE WARLEY
BRENTWOOD
CM13 3HD

SEPTEMBER 2013

INSTRUCTIONS

My instructions were from Strutt & Parker, on behalf of the owners, Childerditch Properties, in connection with promotion of an area of about 2 hectares known as Range North, adjacent to the existing Childerditch Industrial Park into the Draft Preferred Options Brentwood Borough Local Plan.

I confirmed instructions in writing on 22 August 2013. I have been asked to provide advice covering:

- An overview of the existing industrial estate, the nature of the businesses, vacancy rates, commentary on its success over the years and its locational advantages for employers.
- A general view of the market and demand for such units locally. This to include a commentary on supply (both existing and potentially).
- My opinion as to the deliverability (including financial viability) of the site for employment development.
- My opinion as to the demand and take up for the proposed development.

EXPERTISE

I, George Edward Nicholls, became a Fellow of the Royal Institution of Chartered Surveyors in February 1982, having qualified as a professional associate of the Institution in 1973. I am Managing Director of Kemsley LLP, Property Consultants and Chartered Surveyors, based in Chelmsford, Essex. My main experience as a chartered surveyor has been in the valuation of residential, commercial and agricultural properties. This is over a wide area, mainly Essex, but extending beyond. My professional experience is mainly in the valuation sector, together with associated sales, acquisitions and planning matters. I confirm I have relevant experience, qualifications and training in relation to this matter. I am a RICS Registered Valuer. Kemsley LLP has four offices, with a strong commercial agency presence in central Essex and beyond.

BACKGROUND

I confirm, before this instruction, neither I nor Kemsley LLP, have not had any involvement with the Childerditch Industrial Park, Range North, or Childerditch Properties. This has enabled me to undertake an independent assessment of the existing park, its contribution to employment in the local area and the prospects for delivery of further employment on the Range North.

Although aware of the Childerditch Industrial Park, until instructed in this matter I had never visited it. The size is greater, and the character better than I had anticipated, from my prior general expectation.

Mr Ford of Childerditch Properties told me his great grandfather took the tenancy of Childerditch Hall Farm in the 1890s; that it has passed through four generations; with his sons following into the business. His father purchased the freehold in the 1980s.

Part of the area, including Range North, he tells me, was used, as the name implies, as a rifle range during the First World War. Between the wars, the area was operated by the Warley Brick Company, who extracted clay from the area which now forms the pond hole immediately north of the site, and made bricks. This venture was not particularly successful, and the area was taken over by Costain Ltd, who used it for the production of precast concrete building materials. For instance, he told me that the concrete Medway Bridge was cast on the property, and taken for assembly on site. Costain erected a number of buildings, eight of which remain, and formed the start of the industrial park. The Park was further developed mainly in the period from 1990 to about 2003. Now, it comprises 35 units, held on leases by a number of tenants. At the time of my inspection, five units were vacant.

At Appendix One I set out a plan on which I have shown Range North edged red and the existing Childerditch Industrial Park edged blue.

In preparing this appraisal, I have seen, obtained or been provided with the following:

- a schedule of lettings, from the owner;
- details of the rating assessment from the District Valuer's website;
- a planning history off the Brentwood Borough Council website;
- specific planning policies covering the Childerditch Industrial Park;
- Appeal decision reference APP/H1515/C/12/2180609&2180803;
- Brentwood Replacement Local Plan adopted 25 August 2005;
- Go-East letter to Brentwood Borough Council being a direction under the Planning & Compulsory Purchase Act 2004 setting out which policies of the 2005 Local Plan were to expire and which would be saved;
- Local Plan 2015-2030 Preferred Options for Consultation;
- Epping Forest District and Brentwood Borough Employment Land Review by Atkins dated September 2010;
- Heart of Essex: Economic Futures Study by Nathaniel Lichfield & Partners dated June 2012;
- Four indicative layout option plans for Range North prepared on behalf of the owners.

EXISTING CHILDERDITCH INDUSTRIAL PARK

The photographs were taken by me during my inspection on 09 September 2013. The numbers cross relate to the schedule under "Units" and the plan at Appendix One.

KEMSLEY LLP
PROPERTY CONSULTANTS

Access road from A127

A127 access

Estate road, behind Estate Office

Unit 6

Unit 16

Unit 31

25/26 recently surfaced

36, Entrance to ECC highway depot

CHILDERDITCH INDUSTRIAL PARK

Description

The estate is signed and accessible off the east bound carriageway of the A127, about two miles east of the M25 (junction 29). For access from the east, it is necessary to pass the estate, and re-join the A127, a distance of about three quarters of a mile. There is a slip road off the carriageway, with a long private roadway leading to the estate, which is on higher ground, surrounded by trees. The park is not visible until nearly reached.

The existing estate has an area of about 11.25 hectares (27.8 acres).

The park comprises a number of buildings and yards, part industrial, part storage use. These are identified by numbers from 1 to 40, although there is no Unit 13 and there are two "spare" numbers, with some of the yards having two numbers (23/24 and 25/26). So in total there are 35 units or yards, although some areas are occupied together.

The oldest units are those which were constructed originally by Costain, Nos 1, 2 and 3, plus various units beside them. Unit 8a/b is the most recent, being a good specification industrial unit, with office space to one end.

As a general observation (and according to the owners), offices as such are not in demand on the estate. Unit 14 is on two floors, ground floor workshop with offices over, and has been difficult to let, I am told, because of the high office content. Having said that, at the time of my inspection the ground floor was occupied on a temporary basis by one of the tenants on the estate, with the upper floor offices vacant. It is clear to me this is an industrial and storage park, rather than an office base.

At the time of my inspection, there were five vacant units, 8a which is under offer, 14c (the first floor office part of the above mentioned building), 18, 25/26 and 38.

Range North, Childerditch Industrial Park, CM13 3HD

KEMSLEY

Units

No	Tenant	Site (acres)	sq ft
1	CEVA Logistics Ltd	0.70	13,369
2	A Plant	0.84	13,382
J	A Plant	0.30	
3	SMH Products Ltd	0.79	14,546
4	L B Plant Services Ltd	0.19	2,870
5	Power On Connections Ltd	0.26	6,975
7	Power On Connections Ltd	0.47	8,680
6	Hearn Bros	0.07	1,625
8a	Under Offer Modus Utilities 50000	0.31	7,000
8b	P&H Snacks Direct Ltd	0.31	7,000
9	BTS Group Ltd	0.35	13,700
9 yard	UK Power Networks (EDF Energy Networks Ltd)	0.32	
10	Zarafa Holdings Ltd	0.02	787
11	A L Littmoden (Transferred from John Reynolds)	0.03	1,300
12	ESTATE OFFICE	0.03	1,390
14a	J Howard	0.07	3,200
14b	J Howard		
14c	To Let		
15	*Electricity Board Substations and Meter Rooms (1)*		
15a	*Electricity Board Substations and Meter Rooms (2)*		
	Eastern Power Networks - Transformer to South of Unit 31		
16	UK Power Networks (EDF Energy Networks Ltd)	1.24	23,500
17	UK Power Networks (EDF Energy Networks Ltd)	0.68	12,150
18	To Let	0.20	4,950
19	Colmer Plant Hire Ltd	0.25	5,337
20	*spare number*		
21	AFI Uplift	0.81	5,550
22	Knight Build Ltd	1.40	5,812
23/4	CEVA Logistics Ltd	0.92	
25/6	To Let	1.05	
27	SMD Stockyards Ltd	0.49	
28	Ground Control Ltd	0.73	0
29/30	Windsor Waste	1.48	6,090
31	Brentwood Technical Services Ltd	3.26	7,147
32	Citrus Training	0.36	1,300
33	Dawsonrentals Truck & Trailer Ltd	0.69	
34	*spare number*		
35	U K Platforms Ltd	0.71	5,310
36	Essex County Council (sublet to Ringway Jacobs)	1.58	
37	UK Power Networks (EDF Energy Networks Ltd)	0.75	
38	To Let	0.38	
39	Albany Vehicle Rentals Ltd	0.42	
40	D & G Cars	1.03	

This information is as extracted from the schedule provided to me by the owner.

The industrial units have generally been constructed or converted in their entirety by the owner. As far as the storage yards are concerned, commonly the tenants have provided their own portacabin type office accommodation.

It is the policy of the owner, as units come vacant, to improve and refurbish them.

The estate is served with mains water, electricity, both single and three phase (with three sub stations on site), and main sewerage (about 20% on a pumped system).

The estate is surprisingly level, with the area towards the north having been reduced in level, perhaps for the brick clay, leaving various areas at different heights, including internal estate roads.

Rating

34 rating assessments are shown in respect of the property, with a combined Rateable Value of £1,723,300. These range from £7,000 (so none is within the small business bracket) to £174,000. On the current uniform business rate multiplier of £0.471, this represents a total precept of £811,674.

Rental/Leases

The lettings are generally on five year terms or longer, effectively on full repairing and insuring terms, with some incorporating breaks at the third anniversary. Many of the tenants have been in occupation longer, and are on their second or third lease. The rents are in the order of £5.25/sq ft for industrial space, and £1.75/sq ft for the yard areas where concreted.

Occupancy

Occupancy levels are generally very good, no doubt as a result of hands on management and personal on site presence of the owners.

The Atkins 2010 Employment Land Review identified 12 vacant units here in September 2010. This reflected the market circumstances at the time. This has been reduced to five at present. Unit 8a is under offer. One of the existing occupiers on the estate is interested in the yard 25/26, dependent upon securing a contract. Unit 38 has become vacant recently, and is in need of some improvement to enable it to be let. Unit 14c is part of the office building, which, as I have indicated above, is never in much demand. Unit 18 is the only other available unit at present.

EDF Energy occupy Nos 16 and 17 together with the yard behind No 9 and yard 37. They use it as a depot, mainly for the secure storage of cables.

Essex County Council (sublet to their highway contractor, Ringway Jacobs), occupy No 36, part for the storage of road salts and part as offices for their contractors.

Many of the yard areas are used by construction and transport companies. There is a surprisingly low level of occupancy by motor businesses.

The level of occupancy is good, with a range of business size and use. While no exact numbers are known, it is estimated that in excess of 500 people work on the estate.

One unit, No 31, is let until 2016, although the tenant has vacated, and is trying to sublet. I am told EDF Energy are interested, as it is adjacent to their current space.

RANGE NORTH

Description

Range North is an area of land, currently not used, lying adjacent to the Childerditch Industrial Park, and with vehicular access direct from the estate road.

It is reasonably level. It has an earth bund to the western side with trees, palisade fencing to the existing industrial park, and tall trees to the north, so is reasonably well protected from each direction.

There is a gentle fall to the south, where I understand there is a drainage system to the ditch leading south.

The surface appears bereft of topsoil, with some concrete and rubble deposits within the surface layer. There is some natural regeneration of weeds and nettles. Services, I am told, are available near the entrance from the main estate.

Area

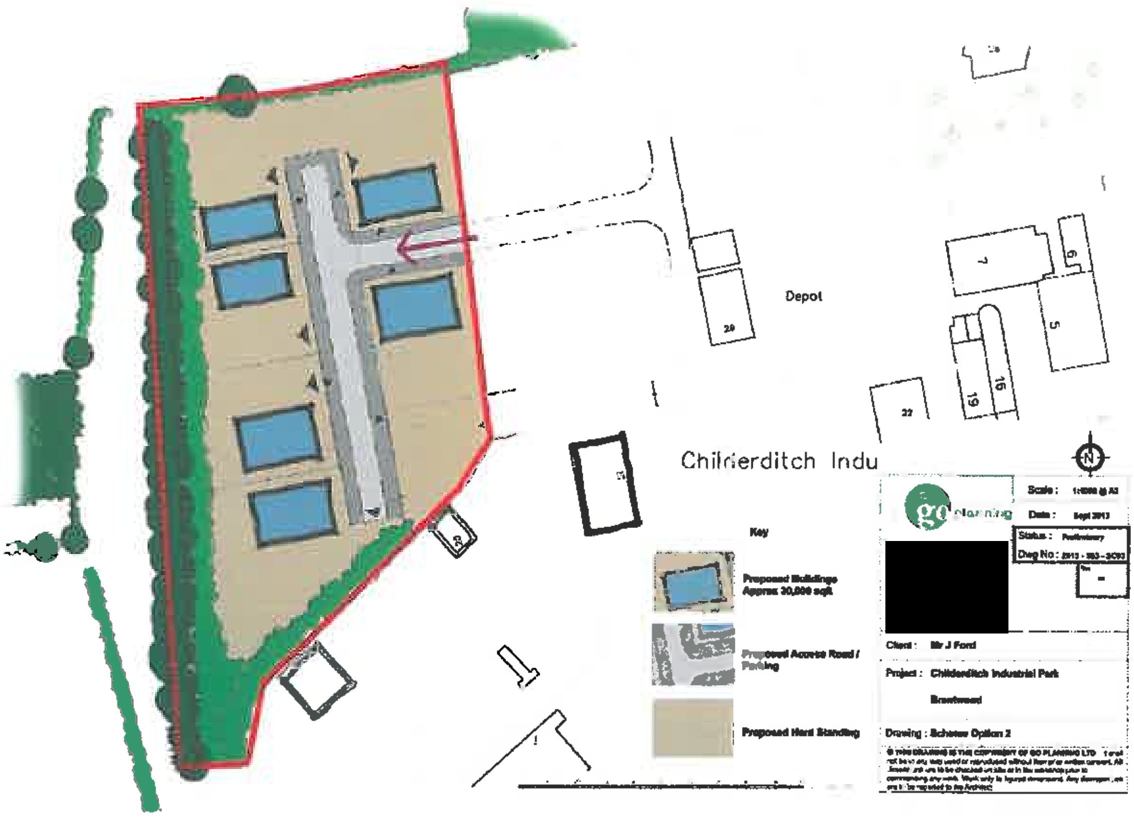
The area is approximately 1.82 hectare (4.49 acres). At present, there are no buildings or other structures on the area.

Demand

I am told that various occupiers on the estate have expressed interest in taking space on this area, in particular the occupiers of units 32 and 35, both of which have a common boundary to it.

I have been provided with four plans showing possible layout options for employment development, three of which show about 30,000 square feet of covered space (as five or six yards with buildings) and the other about 50,000 square feet with three buildings and associated yards. All would be served off a "T" shaped roadway, although on two of the schemes the access is north of the existing point. The advantage of this second scheme appears to be that it would provide a better yard area which could be put with the existing Unit 32.

I reproduce below the plan Option 2, which shows five units, totalling 30,000 square feet with the access further north. The redundant section of existing road could be incorporated with Unit 21, the tenant of which is also seeking an enlarged yard area.



I have no doubt in my mind, based on my general experience, that if available, the demand for such yard areas would be considerable, with open yard areas (on which tenants could put their own portacabin office space) particularly attractive. There is market demand for open storage areas and lorry parking yards, which are not uses welcomed on urban industrial estates. Providing permanent buildings, as above, would give less yard area, but should be attractive. The actual design and layout would be subject to detailed consideration as part of any application for planning permission. It could be demand led and developed perhaps in two phases.

PLANNING

Policy E6 of the Local Plan 2005 relates to Childerditch Industrial Park.

Eleven planning applications are recorded on Brentwood Borough Council's planning website in respect of Childerditch Industrial park. Four of these were County Council matters. Of the remainder, one was withdrawn and one refused. This latter appears to relate to Range South, on which two of the subsequent County Council matters were approved. So, not a particularly negative planning history.

Range North is shown as being in the Green Belt and a Special Landscape Area.

STRATEGIC ALLOCATIONS

The adopted Local Plan currently allocates areas for general employment under policy E1 at: Childerditch Industrial Estate; Hallsford Bridge Industrial Estate; Hubert Road Industrial Estate; Hutton Industrial Estate; Upminster Trading Park; Wates Way/Ongar Road Industrial Estate; West Horndon Industrial Estate.

In the evidence base for the replacement Local Development Plan, are three documents dealing with employment land requirement.

The first, "Heart of Essex: Economic Future Study" (June 2012) by Nathaniel Lichfield & Partners covers the boroughs of Brentwood, Chelmsford and Maldon. It states that the whole of the Brentwood Borough is entirely within the Metropolitan Green Belt. It states the borough has excellent transport facilities with the M25, A12 and A127. It concludes that while the main growth area will be in the service sector (which it states represents 30% of the local economy) the Transport Storage and Construction sectors (6%) show a higher anticipated growth rate, and each needs to be accommodated. It is precisely to this sector which the Childerditch Industrial Park appeals. Appendix 1 of the study sets out the following detailed employment forecasts.

	2012	2021	2031
Construction	1200	1300	1400
Transport, storage	2200	2800	3000

The "Epping and Brentwood Employment Land Review", Atkins (September 2010) identifies 12 vacant units on the Childerditch Industrial Park. As I said earlier (page 10), this is down to five now, with identified demand for additional storage space. This plan identified an additional 1.2 hectares at the Childerditch Industrial Park as a medium/long-term opportunity. While not entirely specific, this would appear to be the area now occupied by Essex County Council (area No 36), which is now taken up and no longer available as an opportunity site.

The "Local Plan 2015-2030 Preferred Options for Consultation" prepared by Brentwood Borough Council identifies, at page 20, an additional 5400 jobs within the borough in the period to March 2030. To achieve this, 31 hectares of new employment land would be required. The table on page 23 appears to be mathematically incorrect, but shows a total employment land requirement of 22.35 hectares, made up of 6.8 hectares of additional employment land (shown as 9.5 hectares on that page), a loss of existing employment land of 18.9 hectares, and 3.35 hectares of existing employment land available for development.

Having checked with the Council, they confirm the calculation should be based on 9.5 hectares. This would give the following sum.

Additional Employment Land needed to 2031	9.50
Loss of existing employment land	18.90
	28.40
less, existing employment land available for development	3.35
Total employment land needed	25.05

The Council has confirmed to me that the 18.9 hectares of land lost to existing employment comprises:

Wates Way Industrial Estate	0.96
Warley Training Centre	6.39
Council Depot, Warley	1.71
West Horndon Strategic Allocation	9.84
	18.90

The 3.35 hectares of existing employment land available for development is not identified. The 2005 Brentwood Replacement Local Plan identified under policy E1 six areas for development, and presumably it is part of these. They are:

Childerditch Industrial Estate. Currently, there is no undeveloped employment land available, although Range North is being promoted as an allocation site.

Hallsford Bridge Industrial Estate. At a meeting of the Strategy & Policy Board on 04 September 2013 Brentwood Borough Council resolved to market this site and promote it for residential.

Hubert Road Industrial Estate.

Hutton Industrial Estate.

Upminster Trading Park.

Wates Way/Ongar Road Industrial Estate. This is one of the sites mentioned above as being lost to employment use.

West Horndon Industrial Estate. Again this is being lost to employment use.

So, presumably the 3.35 hectares is on one or more of Hubert Road Industrial Estate, Hutton Industrial Estate or Upminster Trading Park.

AVAILABLE SITE ALLOCATION

The Council has published Individual Site Allocation Maps under the Brentwood Local Plan 2015 - 2030 Preferred Options. This identifies three sites for employment land:

- 101A land at former M25 Works Site, south of A127. This is a site of 23.41 hectares which elsewhere they refer to as Brentwood Enterprise Park.
- 101B Land at Codham Hall, north of A127. Whilst being promoted, they acknowledge that this is actually regularisation of an existing use (page 84 of the Local Plan 2015 - 2030 Preferred Options for Consultation states "existing employment uses on site, allocate land for employment to regularise uses").
- 102 William Hunter Way. This has planning consent for leisure use, with an application currently being considered, reference 13/007 84/EXT for an extension of time to commence the approved development.

The Council is reckoning to provide 31.1 hectares (although I believe this should be 31.01) of new employment land, more than enough to meet the requirement of 25.05 hectares I have set out above. However, it is important to note this includes areas which are either not new, or are not available. The calculation is as set out overleaf (based on information from page 84 of the Local plan 2015-2030: Preferred Options).

Brentwood Enterprise Park	23.41	
Codham Hall	4.04	
Mountnessing Roundabout	2.60	
West Horndon	5.00	
Old Pump Works, Gt Warley	0.79	
		35.84
Less		
Codham Hall (regularising existing use)	4.04	
Old Pump Works (existing office use)	0.79	
		4.83
		31.01

The Council state of Codham Hall that as it has "existing employment uses on site, allocate land for employment to regularise uses".

Of the Mountnessing Roundabout site, which they describe as a former scrapyard, they state "new employment allocation - brownfield site in Green Belt (existing planning permission for hotel/leisure)". Elsewhere (William Hunter Way as set out above), they disregard land for leisure purposes from the calculation for employment uses.

The West Horndon site of 5.0 hectares forms part of the area being lost to residential, and is so identified in the Individual Site Allocation Maps. If the intention is that part of this area should be available for employment use, it seems unlikely that this would be B2 or B8 use if adjacent to residential properties. It is more likely to be B1a office use, and unlikely to provide space for Transport, Storage and Construction.

Of the Old Pump Works they state "existing office development completed post 2005 plan. Allocate in this Plan for employment." Again this would not appear to be a new allocation.

So, the only available additional site appears to be the Brentwood Enterprise Park. The Council is seeking to provide 6.3 hectares of B1a office space (page 22, 2.43, of the Local Plan 2015-20 30 Preferred Options for Consultation). Presumably the intention would be to put some of this on the Brentwood Enterprise Park, which, being immediately adjacent to the

M25 junction, would be an eminently suitable for this purpose, also as a logistics park. The Council also refer, at page 39 of the Local Plan 2015 – 2030 preferred Options for Consultation, to the site as providing for no more than 12 hectares of B8 (warehousing use). The mix of other B uses is not known.

The Heart of Essex: Economic Future Study (June 2012) concludes that the main growth in the borough will be in the service sector, which represents 30% of the local economy. This explains the need for B1a office space. However, it also shows that the Transport, Storage and Constructions sectors (6% of the local economy) show a higher anticipated growth rate, which will need to be accommodated.

Development of the Range North could meet, or help to meet, this requirement.

DELIVERABILITY

Deliverability is extremely important in the current climate. The owners of Childerditch Industrial Park have a proven track record that they can deliver, and, from the current occupancy levels, that their product is in demand.

In particular, in respect of the Range North, I consider the following apply, and show the site is deliverable, probably in the short term. As I have said, I consider there would be market demand.

- The site is vacant and available.
- The owner is willing.
- Rents being achieved on the overall estate are equivalent to £5.25/sq ft (£56.51/m^2) for covered space and £1.75/sq ft (£18.84/m^2) for concreted yard areas. This

translates, at a yield of 9% to a capital value of £627.90/m^2 for covered space and £216.05/m^2 for the concreted yard areas.

- The current build cost for general factories shown in the August 2013 RICS Building Cost Index Service is £572/m^2. The recent concreting of Unit 25/26 cost £40/m^2, plus the cost of fencing at £100/linear metre. A hectare could require 410 metres of fencing, which would be equivalent to an additional £4.10/m^2. So both buildings and concreting are financially viable.
- Other competing sites may have to consider land value (here, held at a historic cost); and profit, not required here, as the owner does not intend to sell, but to hold as an income producing investment.

Historically, I have valued a lot of sites for development. Through the recessionary times this had evaporated, partly because developers were not brave enough to start schemes, partly because schemes were not financially viable, but to a considerable extent because there was a lack of development funding. For residential development, there have been some sites brought forward recently, but I am not aware of any speculative commercial development within Essex. From discussion with bankers, they would only consider a scheme where there was an end occupier in place.

This is not an issue here, as the scheme could be funded by the owners out of their own resources or cash flow, and phased so that it is demand led.

CONCLUSION

I will deal with this under the four points on which I was instructed.

An overview of the existing industrial estate, the nature of the businesses, vacancy rates, commentary on its success over the years and its locational advantages for employers.

The estate is popular, providing a mixture of industrial units and open storage yards. It is well served by internal estate roads, and has good access to the national road network, albeit there is only vehicular access from the eastbound carriageway of the A127.

The occupiers range from large businesses (EDF and Essex County Council) to fairly small businesses. So a mixture. Similarly, there is a range of businesses, including many requiring external storage. There is surprisingly little reliance on motor traders. In general terms, the estate is busy and thriving. At present, there are five vacant units available direct from the owners (with interest in three of them), and one other available as an assignment by the existing tenant. The advantage of the estate is that it appeals to occupiers who would not be particularly welcome on urban industrial estates. To others, the appeal would be that rents are less than on nearby urban industrial estates. It has a degree of rural charm, and is a pleasant working environment.

A general view of the market and demand for such units locally. This to include a commentary on supply (both existing and potentially).

The market has picked up recently, indeed as a firm, the last three months for our agency team have been the best for five years. We are holding reasonable stock levels, have more in solicitors' hands then for a long time, and are seeing higher levels of completions (mainly lettings, although sales as well). The general economic climate in south east England does appear to be much better than a few years ago. Long may it continue. From discussions with business occupiers (not here, but generally) there is renewed confidence in the general economic circumstances.

At Appendix two I set out a copy of our June 2013 Commentary, Which shows a selection of properties with which my firm is dealing, various deals we have done and a general commentary on the market, funding in particular. This reflects the improved market circumstances.

I have no doubt, if further units were available at Childerditch, there would be demand for them.

My opinion as to the deliverability (including financial viability) of the site for employment development.

In my opinion, units here could be delivered, within acceptable timescales (possibly demand led), at an economic level.

My opinion as to the demand and take up for the proposed development.

As I say, I am strongly convinced there would be demand if the proposed units are built. At present, of course, these could be tailored to any requirement, as no specific planning consent exists. There is known demand from at least two tenants on the estate for space on Range North.

Finally, in my opinion, inclusion of Range North within the allocation for employment land would bring forward early availability of space, for which there would be demand, with relatively little impact on the environment.

[redacted]

Promap

APPENDIX ONE

KEMSLEY LLP
PROPERTY CONSULTANTS

For Identification Purposes Only

Subject Childerditch Ind. Park	
Date Sept 2013	Scale 1:2500
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113 New London Road, Chelmsford, CM2 0QT	

APPENDIX TWO

KEMSLEY LLP

COMMENTARY, JUNE 2013

Welcome to the June 2013 edition of our market commentary

This article provides an overview of economic factors affecting the property market, together with our observations on the commercial property sector in Essex and London over the last six months.

The UK avoided a triple dip recession, when growth of 0.3% was reported for the first quarter of 2013. The Eurozone continues to suffer, with Spain and Cyprus attracting as much negative attention as Greece over the last six months. The UK economy is heavily reliant on the success of Europe; almost 50% of UK exports go to Europe, whilst circa 40% of Eurozone exports come to the UK. Without a strong European economy, our job market, pensions, investments and house prices will struggle for growth. The local property market has fared well over the last six months; demand has increased across all sectors for investment properties, as has rental and capital value expectations amongst property professionals.


Birtwick Park, Bungay

Economic Activity

The International Monetary Fund recently lowered its forecast for growth in the UK economy for 2013, to 0.7%. This compares poorly with that of the prediction for World growth, at 3.3%, but well in comparison to the prediction for Europe, at -0.3%. UK economic growth for 2012 was 0.1%, and this included a boost to the Economy of 0.2% by ticket sales for the Olympics games, as reported by the Office for National Statistics. It is therefore comforting that the predicted trend this year is for an improvement, albeit a small one, without the need for assistance from a large, one off event, such as the Olympic Games. Service sector growth was better than predicted in the Markit/CIPS Services Purchasing Managers' Index (PMI) survey for April 2013. The index now sits at 52.9, which is comfortably ahead of the 50 point mark, which separates growth from contraction. The services sector is by far the most important of the UK sectors, and accounts for approximately 75% of our Gross Domestic Product (GDP). The manufacturing sector contracted a little in April, to 49.8, according to the Markit/CIPS Manufacturing PMI survey and accounts for circa 10.5% of our GDP, whilst data released at the same time in the Markit/CIPS Construction PMI survey showed a strong improvement with the reading jumping up from 47.2 to 49.4 (about 7% of our GDP). Combined, the three UK PMI surveys show the fastest rate of economic growth for eight months.

Availability of Credit

In April, The Bank of England announced it would extend the life of the Funding for Lending Scheme (FLS) until the beginning of 2015. The Bank of England reports that circa £14bn was passed to banks during the period from August until December 2012 by the Scheme, however, the statistics show that the money may not have changed the Banks' lending strategy as intended; the banks participating are said to have lent less after receiving the money than they did during the preceding six month period. A new incentive of the scheme, designed to encourage further lending, is the introduction of £5 worth of additional borrowing for the banks from the FLS for every £1 lent to small or medium sized enterprise (SME's). The extension of the scheme is seen as an alternative to quantitative easing. One of the findings of the Q1 Bank of England Credit Conditions Survey was that demand for credit from SME's has reduced considerably, just at a time when there is said to be an increase in the availability of credit. This is likely to be a disappointment to the Bank of England.


Woodview, Chigwell

Monetary Policy and Inflation

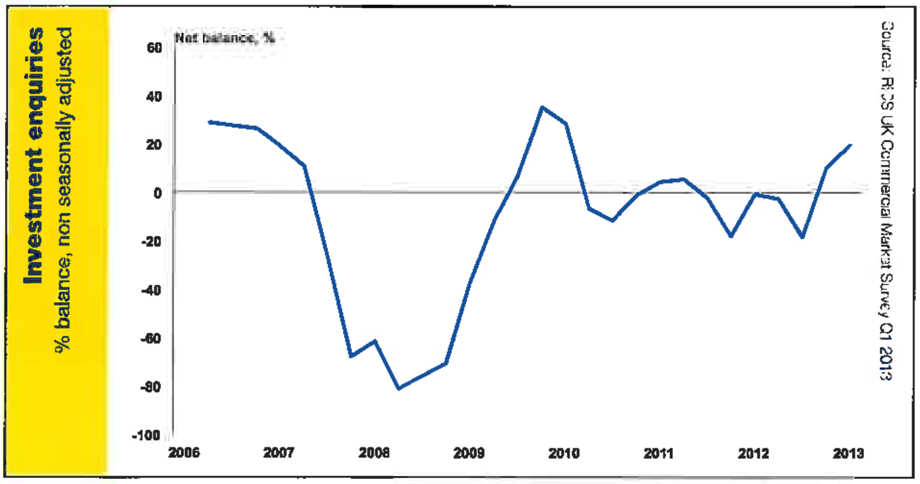
The Bank of England has not stimulated the economy through quantitative easing since July 2012, however, the Funding For Lending Scheme is a form of quantitative easing, and should it prove successful, it will be a very direct approach to getting money right to the heart of where many consider it is needed the most. Combined, the money pushed into the economy through quantitative easing and the FLS now totals nearly £400 billion since the start of the economic crisis. Inflation has reduced a little over the six month period from October 2012 to April 2013, and now sits at 2.4%, after a sharp drop in April. The large fall in April may be an anomaly, as the Bank of England predicts inflation will rise during the course of the year, hitting 3.0% sometime toward the end of the year. The Retail Price Index tracked the movement of the Consumer Price Index over the last six months, with both indices showing a reduction of 0.3%.

Jobs

The employment situation in the UK has worsened during the last six months, with the jobless rate having increased to 7.9%. The number of people out of work grew by 15,000 to 2.52 million in the three months to March 2013, according to the Office for National Statistics (ONS), with a fall in the number of people employed, from the record high of almost 30 million, recorded in November 2012. On a local scale, the claimant count, which records the number of people receiving job seekers allowance, currently ranges from 1.6% in North Essex (best) to 7.8% in Hackney South (worst). A recent survey released by the ONS revealed that the cost of living in the UK has increased at four times the rate of average earnings over the last five years.

House prices

Data revealed by Halifax in April showed an increase (2%) in UK house prices over the last year. Surprisingly, much of this increase was recorded in the last three months of the survey (1.3%). These figures conflict with those announced by Nationwide, with the



Building Society recording an annual increase of 0.9% over the same period. Residential surveyors quizzed by the RICS about house prices are of the view that the Help to Buy initiative, introduced in March this year, has already had a positive effect on demand for property and can be credited with having caused part of the recent increase in house prices. UK house builders, such as Barratt, have been helped by the Funding for Lending and Help to Buy Schemes, with large increases in the number of sales and a sharp climb in share price. The 7% rate of stamp duty for houses over £2,000,000 continues to negatively affect the top end of the housing market in Essex; only one house sold at over £2,000,000 in the whole county between January and April, although


Ashton Gate, Harold Hill

two houses in the county sold for just £5 under the 7% stamp duty bracket showing how much of a hurdle taxation is at this level of value.

Our observations

We have carried out our own in-house data study of deals done in our Agency Department. Of the number of deals done, 57% were in the industrial sector. Of these industrial deals, 85% were for lettings, rather than sales, showing that applicants would still much rather rent property, than buy it. The same pattern is duplicated in those deals done on offices and retail units, with lettings accounting for 100% and 80%, respectively. Looking at the average lease length for each sector; retail leases agreed were for a much longer period, at an average of 11.25 years, compared with 5.14 years for industrial properties and 4.63 years for retail properties. The explanation for this could be that retail tenants are less commercially minded than those in the industrial sector, with only 25% managing to negotiate a break clause within their lease. Landlords of industrial and office premises are still keen to incentivise lettings, with 40% of leases agreed in these sectors having break clauses inserted. Interestingly, sales in land showed the complete opposite to all of the other sectors, outnumbering lettings three to one. Our investment sales were spread across retail and office properties, and we continue to observe a sharp increase in the number of enquiries in this sector, confirmed by data taken in the latest edition of the RICS UK Commercial Market Survey (see graph).

We, like most of our clients, have become accustomed to the difficulties in the economy and although the recovery is likely to be drawn out, there are many opportunities and ample activity. We can accurately analyse property transactions and provide sound advice to owners, occupiers and developers. We feel able to offer effective solutions which should, to a large extent, mitigate the worst the economy has to throw at us for the remainder of 2013.

Chris Tidder
chris.tidder@kemsley.com

It's a done deal!

Below is a selection of property transactions that Kemsley LLP have concluded in Q1 & Q2 2013.

SOLD

Investment/development site
Brickwall Lane, Ruislip

LET

12,000 sq.ft office
Holloway Road, Maldon

SOLD

4,954 sq.ft unit
Hovefields Court, Basildon

LET

6,600 sq.ft office
Bernard House, Hainault, Ilford

SOLD

Office investment
New London Road, Chelmsford

ACQUIRED

5,500 sq.ft Industrial unit
Driberg Way, Braintree

SOLD

Development site
Connaught Ave, Chingford E4

Agency Contacts

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Chelmsford
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London
Mike Lawrence
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Romford
Colin Herman
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Ben Collins
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SOLD

2 acre development site
Eastways, Witham

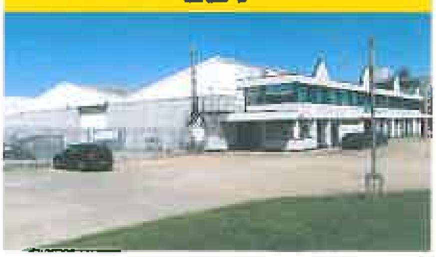
LET

Retail unit
The Brewery, Romford

ACQUIRED

23,500 sq.ft warehouse
Leyton E10

LET



22,123 sq.ft warehouse
Luckyn Lane, Basildon

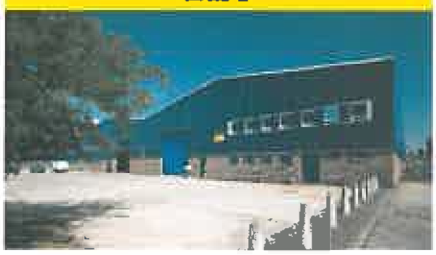
LET

10,530 sq.ft units
Banters Trading Estate, Great Leighs

LEASE SOLD

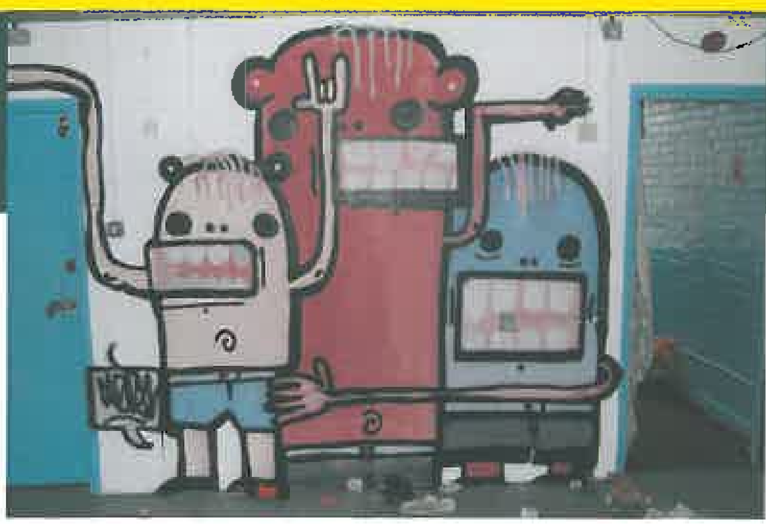
Retail unit
Old Spitalfields Market, London

LET



16,000 sq.ft warehouse
Heathway, Dagenham

Squatters and Empty Rates Relief



We're all familiar with the problems faced by Landlords in dealing with the iniquitous tax of Rates payable on vacant commercial property. For empty buildings where no activity is taking place there is no 'cost' to the Authorities, so here the principal purpose of Business Rates seems to be revenue generation. It's unfortunate that the current Government, despite its overtures disapproving of the previous Government's change, has become reliant on the revenue generated and unable (or unwilling) to correct the injustice.

Even disabling buildings to render them unoccupiable and removed from the rating list altogether is being tested more stringently, with the Valuation Office requiring a comprehensive economic case to be proved before doing so as opposed to de-listing once a building is incapable of occupation.

There are legitimate methods commercial Landlords can use to mitigate the cost of Vacant Rates. The Statutory rates free period can be triggered after each letting of not less than 42 days, although the test of a 'qualifying letting' is regularly challenged in the Courts, and indications are that the Government wishes to close this "loophole". It was this mechanism though which allowed us recently to salvage something from a difficult situation for a Management Client, albeit not by any of the usual means.

In this economic climate void buildings are common and with them exposure to empty rates, but also the problem of vandals, or even squatters. Government recently improved the position over the eviction of squatters for residential property, finally making squatting actually illegal, but failed to apply this to commercial property, whose lack of identical protection remains farcical. Instructions of how to set up such a squat are even published across the internet.

One such commercial property we manage had the misfortune, despite considerable security measures, of being broken into and squatted. This situation arose shortly after its sale had been agreed so an application to the High Court was made to fast track the eviction process and save the sale, which was in jeopardy as a result. In the spirit of the treatment generally of commercial Landlords, it was not considered of sufficient merit by the High Court and was sent back to the County Court where inevitably it would take months to process as opposed to a matter of weeks. We then, however, achieved a small victory. We received a rates demand from the Local Authority which we returned advising them it should be directed to the "occupiers" (ie squatters). The Local Authority had little choice but to recognise the occupation, legal or otherwise, and invoice them directly. The Court Case was settled and the squatters evicted after 3 months. We could then notify the Local Authority that the property was now vacant and that as the occupation had been for more than 42 days a further rates free period should apply. They again had little choice but to agree and a fresh period was granted.

Accordingly if you should have the misfortune to suffer squatters in an empty commercial property it is worth bearing in mind that there may be a chance to at least salvage something if treated appropriately.

To ask about this or any other matter relating to management of commercial property or discuss opportunities please do not hesitate to contact the Kemsley Management Team.

[redacted]

KEMSLEY

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VALUATIONS

COMMERCIAL AGENCY

INVESTMENT

LANDLORD & TENANT

PROPERTY MANAGEMENT

[redacted]

[redacted]

ANALYSIS • ADVICE • SOLUTION