

Brentwood Enterprise Park

Commercial Market Analysis

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1.0 Introduction

Further to the submission of the Commercial Market Analysis for Brentwood Enterprise Park in October 2013, this report provides an update on the relevant commercial property market conditions in order to support the allocation of the subject site for employment uses within the Brentwood Borough Local Plan 2015 – 2030.

The site extends to approximately 23.5ha (58.06 acres) gross and is situated adjacent to J29 of the M25 approximately 24 miles to the East of Central London. The site occupies a particularly strategic location for commercial uses due to its excellent road communications and connections via the A127 to the M25 and the wider national motorway network.

The report is prepared jointly by Strutt & Parker and Glenny LLP on behalf of S&J Padfield & Partners and St Modwen Developments Ltd.

Since the initial report in October 2013 the site owners have entered into a development agreement with St Modwen Developments Ltd, the UK's leading regeneration specialist, to bring the site forward for development, ensuring the deliverability of the site.

1.1 St Modwen Developments Ltd

- **The UK's leading regeneration specialist:** wholly focussed upon regeneration.
- **An established business:** a FTSE 250 company with a 25 year track record.
- **Experienced management team:** extensive operational experience in regeneration and brownfield renewal.
- **A stable and growing business with a solid balance sheet:** a property portfolio of £1.3bn with a see-through loan to value ratio of 30%.
- **Running costs underpinned by recurring revenue streams from a £539m portfolio of income producing assets:** net rental income typically covers the running costs of the core activities of the business.
- **Non-sector specialists:**
 - Commercial development:** Consistent long term, high value commercial redevelopment activity. An active pipeline of commercial development opportunities of over 3m sq. ft.
 - Diverse UK – wide portfolio and long-term development land bank of 5,900 acres:** Not over-exposed to any single scheme, tenant or sector.
 - Residential development:** residential income stream experiencing strong growth via three routes to market – residential land sales, Persimmon Joint Venture and St. Modwen Homes.
 - Active management to increase portfolio value and to reduce development risk:** through planning gains, pre-let, pre-sold and speculative opportunities and increasing the number of design and build projects.

A portfolio of 150 regeneration projects comprising: (built, in progress and proposed) over:-

- 5 million sq. ft. of office space
 - 25 million sq. ft. of industrial and warehouse accommodation
 - 5 million sq. ft. of retail accommodation
 - 900,000 sq. ft. of leisure space
 - 30,000 residential plots (to planning recognition)
- Further information on St Modwen, including recent financial highlights, is attached at Appendix 1.

1.2 Glenny LLP

Glenny LLP is one of the leading independent regional firms of Chartered Surveyors and Property Consultants operating throughout Essex, Metropolitan London, Hertfordshire and Kent. Through our wide interests and involvement in this marketplace Glenny LLP has a significant exposure to the regional commercial sector, either through a direct property agent involvement or in the capacity of valuer for lending institutions, or purchasers.

Established in 1892, Glenny possess an extensive knowledge base of the region and have had an Essex presence since 1987. The firm advises a wide range of property companies, developers, institutions and public sector bodies throughout the region and have been particularly active in the office and specialist industrial, warehouse and distribution markets. Clients include SEGRO, ProLogis, Graftongate Developments, IPIF, Legal & General, Ford, LaSalle Investment Management, Salmon Developments, AXA, DP World, Greater London Authority, RBS, BlackRock, Peabody, Canada Life, Tesco, Barclays, London Borough of Havering and Essex County Council.

Glenny's business space teams across the region are currently marketing in excess of 2.9m sq ft of existing warehouse and office product and are handling over 100 acres of development land capable of delivering in excess of 1.7m sq ft of built space.

1.3 Strutt & Parker

Strutt & Parker are one of the leading advisors on business and science parks, industrial and mixed use development, advising on masterplanning, asset management, marketing and investment.

The firm has been involved in this sector of the market since the early 1980s when it was instrumental in identifying opportunities in the UK and introducing the concept of large scale out of town business areas that had evolved in the United States, particularly as a response to the growing demands of the high technology and R&D growth industries.

The firm is an advisor to Goodman (formerly Arlington Securities) and have advised them on all aspects of their Business Park portfolio on some 15 business parks across the UK. The

role has been to advise on masterplanning, asset management, marketing, leasing and investment.

Strutt & Parker helped establish business parks as an independent asset class working with Investment Property Databank in producing the Annual Business Park Index which has now been in existence for 17 years.

2.0 Brief

The purpose of this report is to provide commercial market analysis to support the development of the site for the provision of B1 (a, b and c), B2 and B8 employment uses as well as ancillary uses to provide the necessary amenity required to attract the reasonable needs of occupiers and their staff, e.g. A2, A3 and C1, and to identify why this site is both suitable and commercially viable for this mix of uses.

We have provided an up-to-date overview of the logistics sector incorporating several key trends that are changing how land is developed and how buildings of this nature are now occupied by end users in terms of employment numbers. It was previously stated that whilst high employment is often associated with office and research and development uses, the changing nature of industrial occupation and building design can sit comfortably next to these other B class uses in a business / enterprise park environment.

Further to this we have analysed the current office and industrial market in the Essex region as well as general trends across the wider South East.

3.0 Review of Employment Sites

We have reviewed the other key employment sites within the Borough that are relevant in terms of the viability and deliverability of the proposed employment allocation at Brentwood Enterprise Park whether by being re-allocated and redeveloped for alternative uses such as residential or as a competing employment site.

The large majority of existing stock in the area was developed many years ago and whilst it has been generally acceptable to the local market, it is not of the calibre of development product that is now attracting modern businesses or inward investment. The sites do not allow for the mix of uses that can be incorporated into a masterplanned business park environment.

3.1 West Horndon Industrial Estate

The West Horndon Industrial Estate is made up of two parts, Horndon Industrial Estate and Horndon Industrial Park. We understand that there is a proposal to re-allocate the site for residential uses, with the potential for 5 ha of employment land to be retained as part of a new redeveloped site. Given the site's location and access off Childerditch Lane / St Mary's Lane it does not provide a prime development site for commercial uses when compared to the subject site.

The industrial estate primarily consists of older refurbished buildings with the exception of 9 new units which were built by Easter Developments in 2007. Horndon Industrial Park, owned by Hermes, comprises 68 units in total and offers industrial and office units of varying quality as well as stores and yard areas.

If this site were to be fully redeveloped for residential, we consider that there is potential for a number of the occupiers on this estate to be located in new buildings at Brentwood Enterprise Park and who would benefit from the better location adjacent to the A127 and M25.

Wolseley, for example, a global company providing builder's supplies and who were based on this estate, have recently acquired a new 58,000 sq ft building in Basildon on a freehold turnkey basis. This is the profile of local business that might consider Brentwood Enterprise Park for a regional industrial/warehouse unit.

3.2 Wates Way Industrial Estate

The estate, which is located in the town centre and accessed off Ongar Road, provides small industrial/storage units that can be available on short term flexible leases. The units are generally outdated and have tight yards with limited HGV access and as such can become exceptionally congested at peak times.

The occupiers are generally local businesses and as such it is not anticipated that many would suit new premises to be provided on the subject site, given the step-up in quality and associated cost of leasing a new unit.

Generator Group have recently purchased this site and are pursuing a retail and residential led development, which given the town centre location we consider to be more appropriate than employment development. Colden Engineering, a local company who were based at Wates Way, has recently moved to Basildon because of the redevelopment proposals affecting the site.

3.3 Hutton Industrial Estate

The Hutton industrial Estate is made up of two main estate roads, Tallon Road and Prospect Way. It is located on the eastern side of Brentwood town centre and is accessed off Wash Road which, if heading north, is compromised by a low bridge where the railway crosses overhead. The height restriction of 13'0" limits the potential for large scale occupiers to locate here as large vehicles will have to pass through the town centre, rather than being able to access the A12 via Mountnessing roundabout.

The estate, however, is well established with a mix of older and some modern, recent development, such as the Chancerygate Business Centre, which has provided small leasehold and freehold units predominantly for local occupiers.

There may be potential for occupiers on this estate to re-locate to the subject site, particularly some of the larger regional businesses who may be outgrowing their current premises. Due to a lack of other suitable existing options on the estate, these occupiers would have to consider alternative locations for larger or more modern units and it will be important to be able to retain these in the Brentwood area.

3.4 Mountnessing Roundabout Site

The land at Mountnessing Roundabout, also known as Aspect Park, has been actively marketed for employment uses over the past 18 months with promotion for an industrial and/or office development. The site extends to 6.89 acres gross and was promoted for design and build enquiries from 20,000 sq ft.

During the marketing period the site had full exposure to the market and yet generated no substantial interest from occupiers looking to locate at the site. Where there was interest, it was either not of sufficient quality to be progressed further or there were concerns over the impact of commercial uses on the residential dwellings within close proximity. Alternative sites in the area have demonstrated good demand over the same period and there has been active discussions for design and build units on competing sites which have not considered Aspect Park.

Therefore, despite the good access to the A12 and whilst the site is allocated for employment uses, we do not consider it a viable alternative to the subject site and instead would suggest hotel / retail / drive-thru uses or even residential would be more suitable.

3.5 Dunton Gardens Suburb

The site is located to the south of the A127, accessed via Dunton junction, to the west of Basildon. Whilst the proposals for this site are still in consultation, we understand there is the potential for employment / commercial land to be allocated alongside the provision of up to 6,000 new homes.

We are of the opinion that occupiers would view the site as inferior to Brentwood Enterprise Park as it is located further along the A127 from the interchange with the M25 at J29. We would also raise questions over the timescales for delivery of this site, particularly when compared to the extensive work undertaken to date on the deliverability of the subject site.

3.6 Summary of Employment Sites

There is significant potential for occupiers who are currently based on one of the existing employment sites within the borough to be re-located at Brentwood Enterprise Park if their existing site is redeveloped for residential.

Brentwood Enterprise Park can provide a deliverable option for many of these occupiers and given the excellent road communications it is better suited to employment uses than the other sites that are currently allocated or that have planning permission within the borough, such as at Mountnessing roundabout.

The other existing employment locations predominantly consist of aging accommodation that will not support occupiers' growth within the Borough. The majority of existing sites are also constrained by poor access and congestion issues as well as having the potential for planning restrictions over hours of use or noise levels due to being located near to residential developments. This will significantly restrict their ability to attract occupiers.

The subject site can also provide flexibility to occupiers and will be developed to appeal to a wide range of occupiers as well as different employment uses. The scale of the site allows it to be clearly phased and can therefore provide buildings in the short term but also in the longer term over the Local Plan period.

Despite the subject site not yet being promoted to the market, we have received a number of enquiries from regional and national occupiers who have live design and build enquiries in the area and are attracted to the site due to the strategic location and the ability to provide modern headquarters style buildings within a business park environment.

Brentwood Enterprise Park also has the benefit of a developer, with an outstanding track record for delivering, to bring the site forward. This, in comparison to seemingly longer term sites such as Dunton Gardens, enhances the deliverability of the site.

4.0 Office Market Overview

In the wider Essex region the office market is less buoyant than that of the industrial and warehouse sector, although Chelmsford and Brentwood are considered to be the strongest eastern M25 locations. As a consequence, Brentwood has attracted a number of major office occupiers including Amstrad, BT, Standard Life, B&Y Mellon, The National Centre for Social Research, Ford Motor Company, Ford Credit and Countryside Properties.

Brentwood is an established north east M25 office location with a total estimated stock of circa 1.7m sq ft. This has remained constant for the past 10 years with no new buildings developed in that time. Most of the existing stock is located in the town centre, within close walking distance of Brentwood train station. The out of town market consists principally of Warley Hill Business Park, which is fully built out, and a limited number of single buildings, many of which are located on London Road.

Supply has been historically limited by restrictive planning policies and there is limited availability of new Grade A product within the Brentwood office market with much of the existing stock generally of an outdated design and layout and in many instances in a poor state of repair and decoration. Given the buoyant residential market in Brentwood, much of this stock is likely to be redeveloped for housing through recent changes in Permitted Development Legislation and this trend has been taken into account in the council's housing supply studies.

There has been no new office development for some time within the town; the last speculative scheme being The Old Pump Works which is situated in an out of town location close to the A127 (Southend Arterial Road) in which the "Reservoir Building" although subject to a lockout agreement remains available and has been for some 5 years.

The key office locations within the Borough of Brentwood are considered to be the following;

Town Centre

Brentwood Town Centre contains over 350 shops, banks, restaurants, including the recently refurbished Bay Tree Shopping Centre around which there is a major concentration of offices. The high street and adjacent roads form the primary focus of the business district.

The Station Area

The area around Brentwood Station including Warley Hill contains another large concentration of office development conveniently located close to the station.

Shenfield

The office market in Shenfield is concentrated around the Broadway and Hutton Road areas, close to the station. As the eastern starting point, Shenfield Station will form the keystone of the impending Crossrail project which will link Brentwood with Central London and Heathrow in 2019.

Ingatestone

Ingatestone is the boroughs largest commercial centre outside of Brentwood town centre, with the offices principally located in the high street.

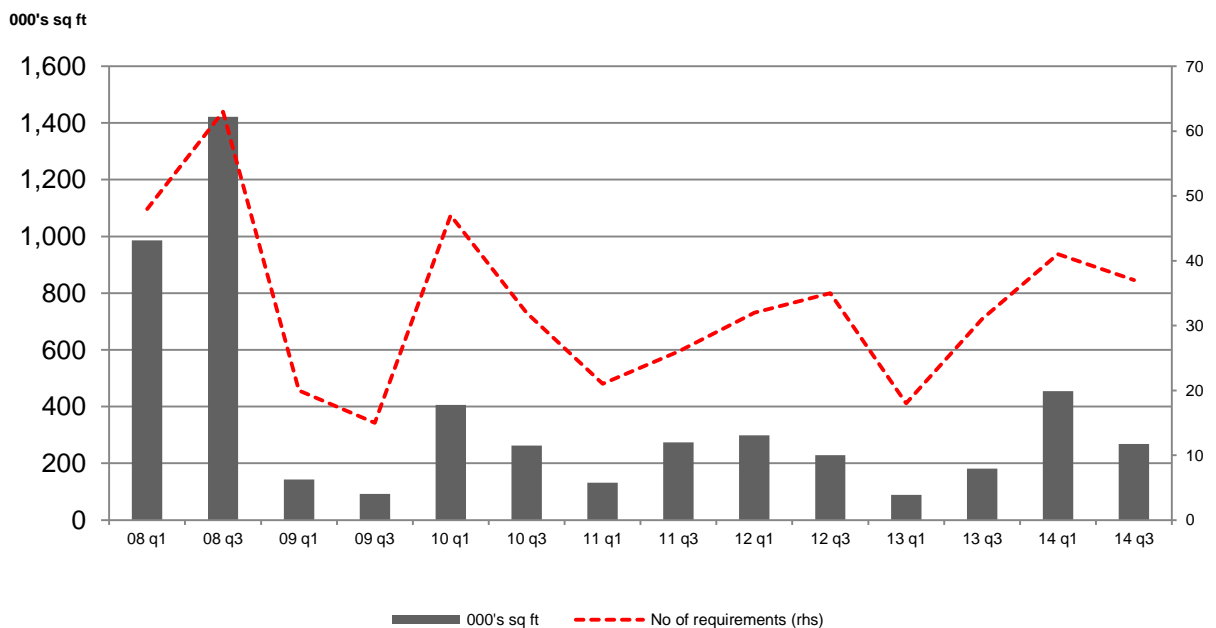
Warley

Located less than a mile from Brentwood Station, Warley Business Park provides office accommodation in a 1980's built business park location and is home to some of the town's largest companies, including Ford, Countryside Properties and Regus.

These existing office locations generally standalone and none provide a mix of uses as would be proposed on a major business park. Specifically, they do not provide the typical environment that would attract a business searching for a National Headquarters facility.

We have outlined below further detail on the office market, specifically in terms of Demand, Availability, Rents and Take-Up. The statistics shown are correct as at the end of Q3 2014.

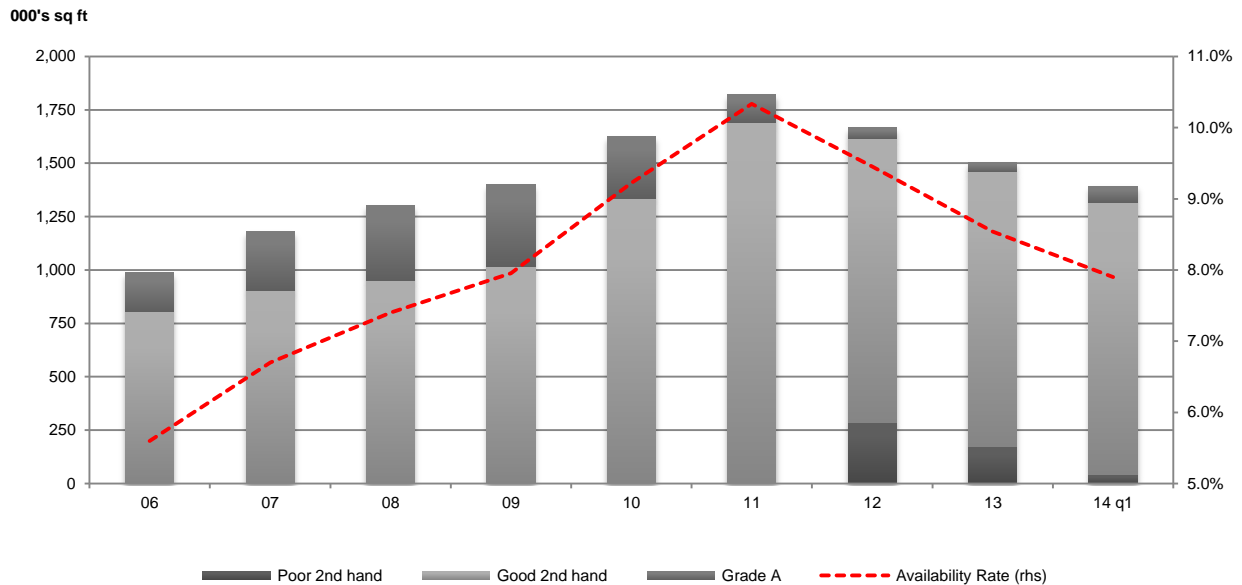
4.1 Essex Office Market Demand



- Demand eased back to 270,000 sq ft from the five year peak level of 454,000 sq ft in q1 2014. The main cause behind the drop off in demand has been the reduction in requirements for larger buildings (>25,000 sq ft), which eased back to 92,500 sq ft from 201,000 sq ft.
- The demand for units of below 5,000 sq ft has remained good, with 23 separate requirements looking for 42,000 sq ft of office space.

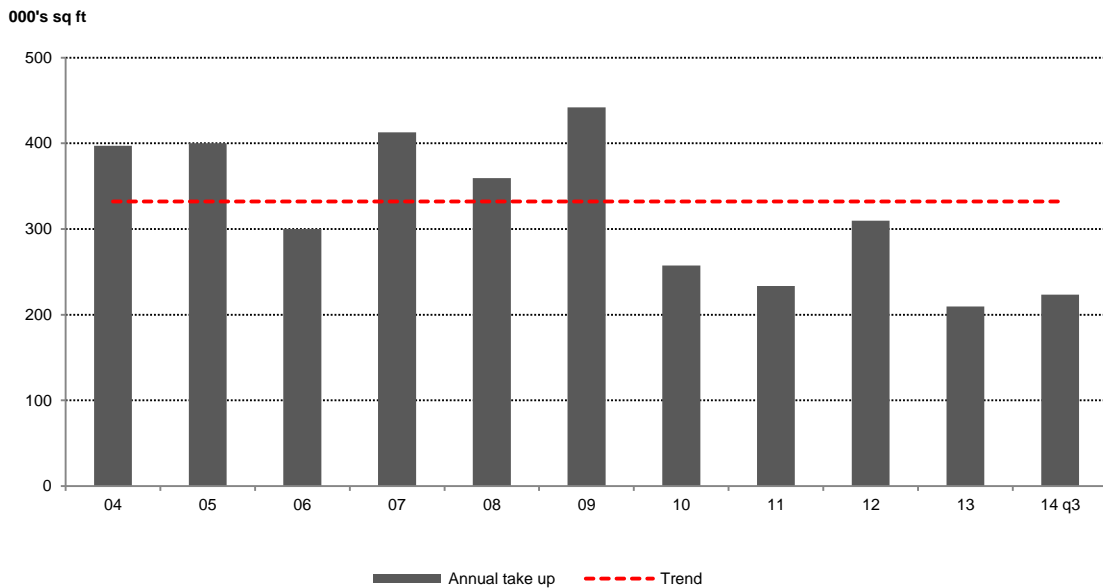
- Demand for mid-sized buildings (10,001- 25,000 sq ft) has remained relatively strong at 110,000 sq ft in eight requirements, accounting for 41% of overall demand in the area.

4.2 Essex Office Market Supply



- Availability continued to tighten, with total stock on the market down to 1.2m sq ft from 1.5m sq ft at the end of 2013. A number of poorer quality buildings have been lost to permitted development, particularly in town centre locations with good railway links into London.
- There is only one building on the market above 50,000 sq ft, the 57,350 sq ft Baryta House, Southend, which is still partially occupied. More than 62% of availability is in suites or buildings below 10,000 sq ft.
- Grade A supply remains tight with only 55,000 sq ft on the market, the majority of this space in two buildings, the 19,900 sq ft Myriad House, Chelmsford and the 11,500 sq ft Reservoir building at great Warley Street, Brentwood.
- The overall availability rate has now fallen to its lowest level since 2007, standing at 6.7% at the end of September 2014.

4.3 Essex Office Market Take Up



- The first three quarters of 2014 have seen activity levels already surpass the total take up registered for the whole of 2013. Take up in the nine months to the end of September 2014 totalled 223,400 sq ft, with full year activity expected to reach 300,000 sq ft, marginally below the long run trend level of 330,000 sq ft.
- There have been only two transactions in excess of 10,000 sq ft during the year, the largest being the 23,655 sq ft to Europa at Dorset House, Chelmsford, with a further 11,000 sq ft let at Academy House, Brentwood to Comms.com in the second quarter.
- Activity has continued to be focused on the smaller end of the market, with 57% of lettings focused on units of less than 5,000 sq ft and a further 22% in units of 5,001-10,000 sq ft.

5.0 Industrial Market Overview

The Business and Industrial use class comprises a variety of business types ranging from Office, R&D and Light Industrial to Manufacturing and Logistics. The sector as a whole has continually evolved over the last 20 years which has resulted in a major change in building use, design and specification, along with a logistical and labour-led approach to the selection of locations for such facilities. Supply chain logistics has therefore been one of the fastest-growing sectors of the UK economy, expanding at a rapid pace over the past 15 years.

The decline previously seen in the manufacturing sector has been reversed somewhat, more recently over the past 5 years with steady growth in a number of locations, particularly in the West Midlands and the North West. This growth has been particularly prevalent in the automotive industry with global companies such as Jaguar Land Rover and Nissan investing heavily in new manufacturing facilities around the UK. This has also had an effect on many smaller businesses that play vital roles in the supply of components and the distribution of finished products to and from the major manufacturing hubs. As a result we are beginning to see further property requirements emerge from the manufacturers and their related industrial / distribution companies. It is typically the case that the industrial occupiers will be pitching for contracts to supply or operate on behalf of the manufacturers and the type and length of these contracts will ultimately influence the size, location and use of building that is taken. Many manufacturing companies are now investing further in research and development initiatives and advanced manufacturing techniques which is driving innovation and efficiency in the sector.

The changes to the logistics sector have been brought about through the application of computer technology and in particular the internet, which has allowed occupiers to have far greater stock control and management with a consequent reduction in the levels of stock held within the supply chain. The EPOS (Electronic Point of Sale) system has ensured that an extremely efficient supply chain can be set up to minimize the cost of the provision of products. This has led to the creation of a hierarchy of facilities falling broadly into three categories of National, Regional and Local Centres.

The scale of these facilities is very much driven by the specific nature of each organisation, however in broad terms, the National facilities are predominantly located in the Central Midlands area and are seeking to maximise their UK coverage as from the Central Midlands approximately 90% of the UK population can be reached within a 4.5 hour drive time. These are usually involved in servicing the whole of the country and include holding as well as the distribution of goods. The scale of these buildings can be anything from 100,000 to in excess of 1 million square feet.

The location and access to the major commercial ports is also influencing this sector and increasingly, rail terminals. However, rail orientated freight continues to have a relatively limited impact in the market given the rail capacity limitations in the network at present. The Working Time Directive and Road Transport Directive, both pieces of EU legislation, have an

impact on the distribution market with regards to the hours that lorry drivers are permitted to work during the average working week.

Regional facilities (RDCs) which have been a growth market in the last 5 years, are seeking to achieve a balance between the speed of access to the consumer and the scale of the subject market. These facilities tend to be located in the major regional centres where there are particularly good motorway links and often rail access. Consequently, locations on the main arterial routes and access to the M25 have consistently attracted these types of facilities. Whilst initially these units may have been from 50-250,000 sq ft, more recently these sites have attracted facilities of up to 700,000 sq ft to service London and the South East particularly.

On a more local level, there has recently been a move towards the provision of Local Distribution Centres, often supplementing the RDC network. These are very much orientated to specific localised markets and often concern high value goods or operators involved in next day/rapid delivery activities. For certain types of operators, these local facilities ensure that the network produces maximum efficiency and are now being promoted by companies responding to retailing and general user's needs for rapid market response.

In terms of manufacturing buildings, their scale can range from 20,000 sq ft up to 700,000 sq ft in some instances, depending on the particular organisation's size and their operational requirements. An example of this is the Jaguar Land Rover facility now completed at i54 Business Park in Wolverhampton, where the proposed unit extends to over 700,000 sq ft and will create as many as 1,400 jobs. This job creation is because the larger the facility, the greater the likelihood that other functions of the organisation will be incorporated within the building, such as a greater office function including call centre, research and development operation or ancillary storage. The suppliers that are linked to the major manufacturing hubs can take buildings ranging from as little as 5,000 sq ft up to over 100,000 sq ft, depending on the scale and length of the contracts they hold, as referred to previously.

From 2000 to 2007, there was significant investment demand in the property sector which resulted in a boom in the speculative development of industrial properties and in many locations resulted in an over-supply. The economic downturn in the UK followed shortly thereafter and following a period of inactivity, landlords became more competitive in the terms that they were prepared to accept and many occupiers then took advantage of the market conditions and acquired property on favourable lease terms that would not be viable to support new construction.

This trend was seen across the country and we have now reached a point where in many locations and in various size bands there is a distinct shortage of supply of modern specification buildings, particularly in the Midlands and South East. There has recently been an increase in the number of design and build enquiries, which is largely through necessity as a result of the lack of availability of appropriate existing accommodation and contributed in some instances by the requirements being for bespoke buildings.

As a consequence, a two tier market initially emerged where the terms achieved on existing buildings were fairly weak with short term leases and large incentives available. Conversely, design and build transactions have tended to result in long term leases, at high rents and with limited rent free periods or incentives available. With the recent contraction in the supply of existing buildings, there is evidence that net effective rents are increasing and rental growth is now evident in core Midlands locations as well as across the South East.

As a result of the continuing decrease in supply we are now seeing the return of speculative development of distribution buildings in core regions with over 4.5 million sq ft now either built, planned or under construction. This has predominantly been led by large developers such as Prologis, Gazeley and IM Properties, however there has also been appetite from funds with LaSalle Investment Management, Rockspring, Blackrock and Cordea Savills all currently funding on speculative developments of distribution buildings in the UK.

This is also now relevant to Essex where four speculative schemes are now either underway or have already reached practical completion, namely;

- Tower, Thurrock where Blackrock has funded Bericote Developments on the construction of three industrial units extending to 50,000 sq ft, 101,000 sq ft and 128,000 sq ft respectively. The 50,000 sq ft unit was let in December 2014 to Elliott Baxter Paper and set a new record headline rental value for the area in this cycle of £8.75 psf.
- In Basildon, LaSalle Investment Management has funded Roxhill in the development of two industrial units extending to 70,665 sq ft and 107,355 sq ft respectively with the smaller unit under offer and understood to be close to completion.
- Further towards Central London along the A13, Standard Life has funded Ravenbourne on the construction of 9 units totalling 196,250 sq ft with individual units ranging from 9,600 to 68,000 sq ft. 50% of this scheme is reported to be under offer already.
- At DP World London Gateway, Prologis are currently on site speculatively developing a 316,561 sq ft unit in a JV partnership with DP World. This is due to complete in Q3 2015.

5.1 The Urban Logistics Model

Further to the national outlook described above there has been a shift from both logistics providers and retailers to consider how logistics operations work in urban areas. This focusses on having warehouse and distribution units around key road communications on the edge of dense conurbations. This is particularly prevalent in Greater London with units around the M25 that can provide a final stop for products before they enter the 'last mile' of delivery to the consumer.

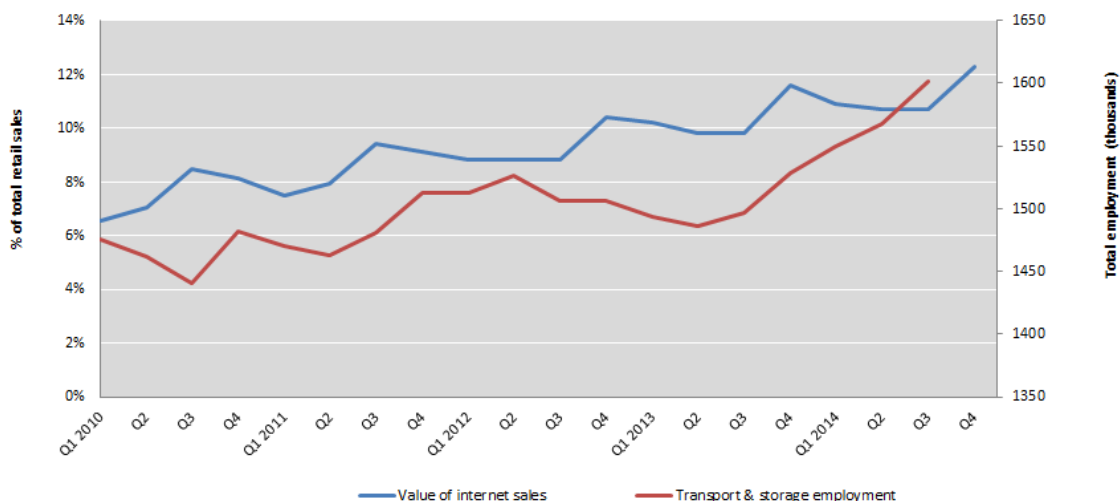
Given Brentwood Enterprise Park’s location adjacent to an M25 interchange, we expect the site to attract significant interest from both retailers who undertake their own logistics as well as parcel operators and third party logistics providers who deliver goods on behalf of others. These types of units can often also contain increased office functions in order to deal with order processing and the return of products.

The challenges of urban logistics centre on the inefficiencies of the supply chain and the drive to match the expectations of the consumer. Whilst there is a cost associated with deliveries, particularly in terms of real estate, cheaper locations can often provide a false economy as increased real estate costs, in London in particular, are outweighed by the improvements to efficiencies of delivery.

The costs of transport are also significant and as emissions legislation is tightened within Greater London we expect to see more collaboration between retailers and logistics providers, although this is still in its infancy. The loss-leading nature of many delivery companies will mean that the current model has to adapt and Urban Consolidation Centres (UCCs) in locations around the M25, such as Brentwood Enterprise Park, will allow retailers to combine deliveries to specific areas within Greater London in order to improve efficiencies. These common user facilities are yet to become mainstream however DP World have recently constructed a 386,000 sq ft unit for this purpose at their London Gateway site, in order for multiple occupiers to make use of the associated port.

There is a strong correlation between internet sales and transport and storage employment. This is shown in the graph below which plots the two variables from 2010 to 2014.

Internet sales vs logistics employment



* Transport & storage employment not available for Q4 2014
Source: ONS

The value of internet sales at the end of 2014 represented just over 12% of total retail sales, roughly double the figure at the beginning of 2010. This increase has been matched by the increase in employment in transport and storage which has increased from approximately 1.475m in 2010 to just less than 1.6m in Q3 2014. This is in line with Brentwood which, as

stated in the NLP Brentwood Economic Futures 2015 – 2030: Final Report, has seen increased employment in transport and storage jobs and in fact at a rate ahead of the East of England in terms of percentage change between 1997 and 2014.

This increase has been brought about through changes in the way consumers shop, their changing expectations for delivery and how they access goods for sale online. The increasing pressure on last mile delivery, particularly within areas of dense populations, has meant that logistics providers and retailers have had to adapt their supply chain in order to meet increasing demand.

5.2 South East Industrial Market

Take-up across the South East for industrial units over 1,000 sq ft totalled approximately 18.8 million sq ft in 2014 which showed a marginal increase on the 2013 total. Up until the second quarter of 2014 we had seen 5 consecutive quarters of growth in take-up stretching back to Q4 2012. The sustained increase was largely due to the improving economic sentiment and increased occupier confidence which led to a number of businesses expanding as well as new occupiers becoming active in the market.

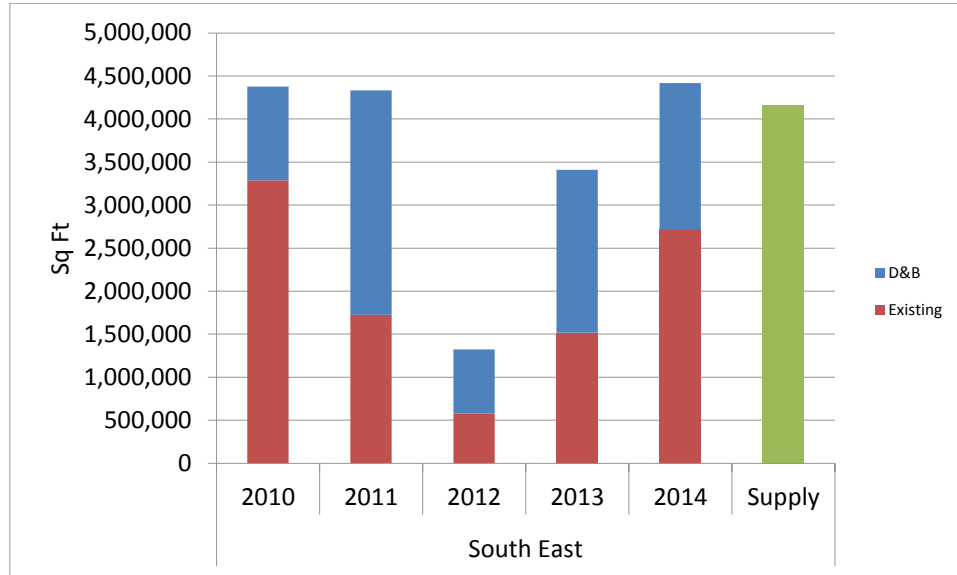
There was however a slowdown in Q2 2014 with total take-up for the quarter down 24% on Q1. This was due to a lack of larger design and build transactions which have a greater influence on the figures and which were significantly present in the first quarter. However, whilst the total take-up figure did decrease, some size bands saw an increase in Q2, with take-up in the 20,000 sq ft to 50,000 sq ft size band increasing by 14% on Q1.

Following on from this slight downturn, take-up in Q3 2014 returned to positive growth and increased by 12% on Q2, however remained down on the first quarter of the year, again due to an absence of larger design and build transactions (>500,000 sq ft).

The other threat to continuing increases in take-up has been the lack of existing supply that is becoming more evident across the South East and is now affecting an increasing number of different size bands and locations. This is due to the lag between the increase in demand and the construction of new supply and whilst a pipeline of speculative development is now returning to many core markets within Greater London and the South East, it is still predominantly focussed on prime sites and in locations where funding can easily be secured.

The lack of existing supply has meant that landlords in such areas are now able to secure rental growth both on industrial estates and distribution buildings, as well as reducing the levels of incentive offered to occupiers. The supply shortage has also meant that there are still a number of unsatisfied occupier requirements in the market and occupiers are being forced to widen their search areas and become more flexible on the building size and specification they are willing to occupy, in order to find suitable buildings.

Take-up of units larger than 100,000 sq ft (GIA) across the south east is detailed in the following chart, shown to the end of 2014.



Source: Strutt & Parker

This highlights the influence of design and build transactions on the annual sq ft take up figures, albeit in 2014, existing buildings accounted for 61.5% of total take-up. The take-up is shown against existing supply of 100,000 sq ft + units which currently stands at just over 4m sq ft however a number of the units included within this are secondary and there are in fact very few prime buildings available across the region.

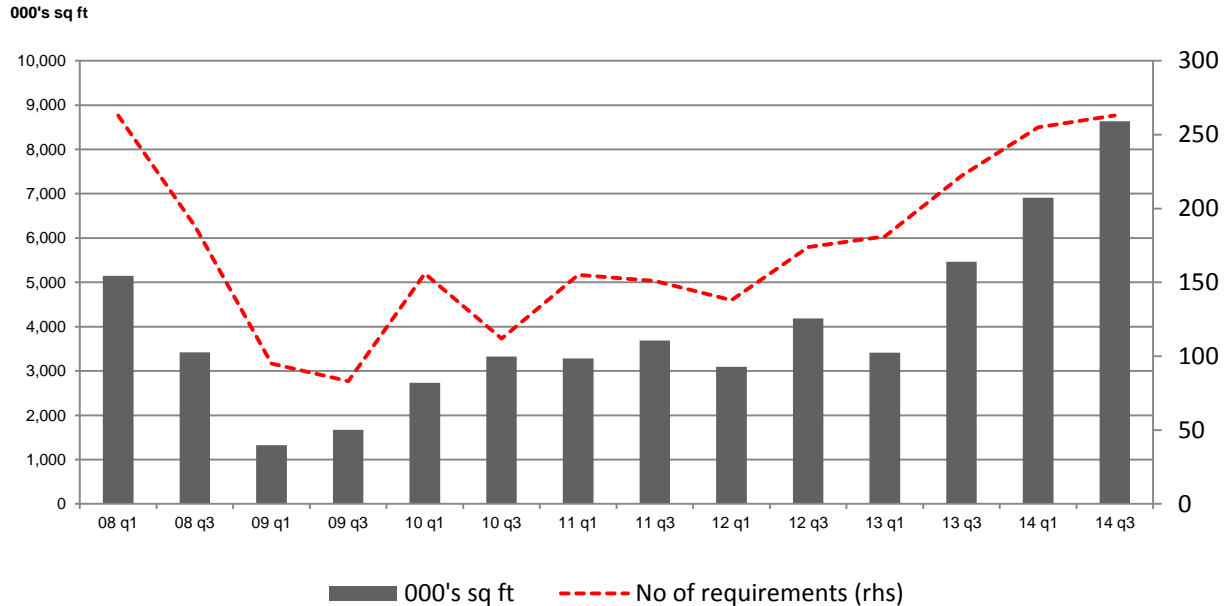
5.3 Essex Industrial Market

The South West Essex region historically has benefitted from a strong industrial manufacturing presence although this has essentially manifested itself along the main arterial routes and water ways of the River Lea and the River Thames. As evidenced throughout the UK generally, there has in recent times been a shift away from the manufacturing sector to that of warehousing and distribution and the region generally is now perceived to be an attractive distribution location with excellent transport links in close proximity to Central London. With two exceptions (namely Brentwood and Chelmsford) the region has never been accepted as a prime HQ office location.

In terms of infrastructure, the region has over the past decade benefitted greatly from a number of key improvements including the construction of the Blackwall Tunnell link road (A12) which provides direct access from South East London and Kent through to East London, the M11 motorway and the A12. Public transport connections at Stratford are exceptional with regular services to and from Shenfield via Great Eastern which will improve in 2019 with the opening of Crossrail.

We have outlined below further detail on the Essex region specifically in terms of Demand, Availability, Rents and Take-Up. These statistics are correct as at the end of Q3 2014.

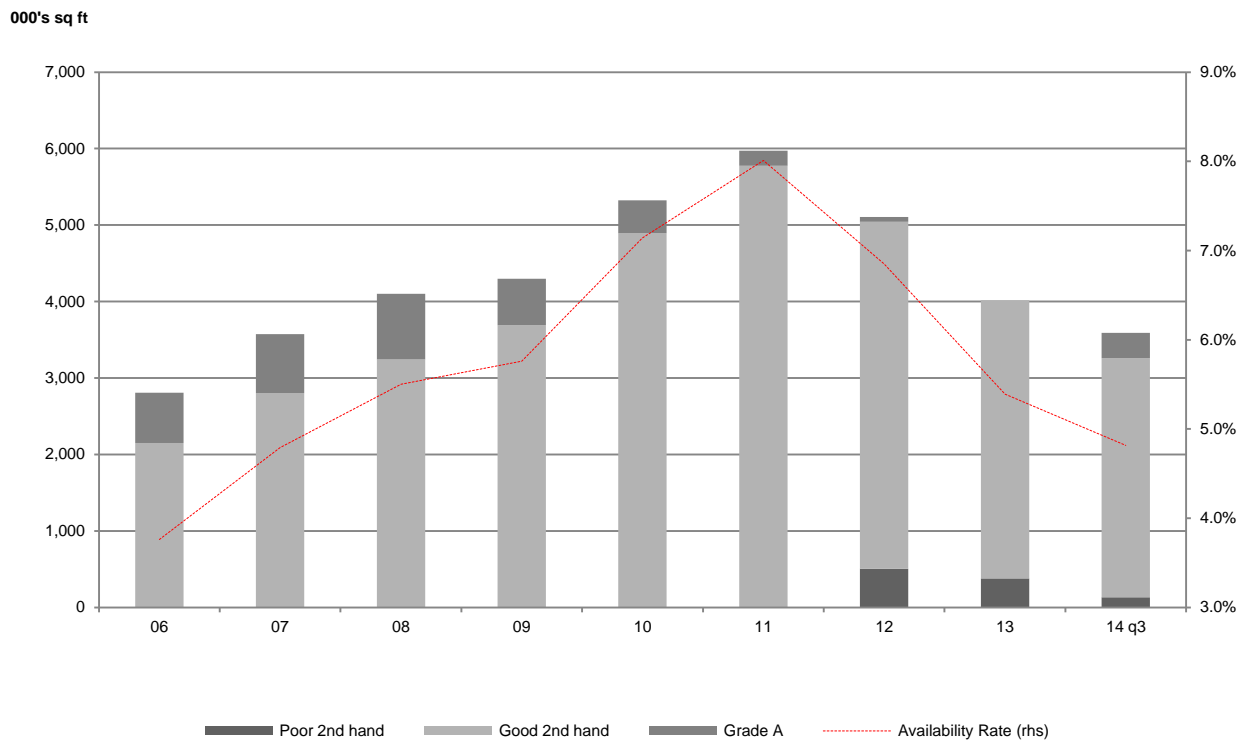
5.3.1 Essex Industrial Market Demand



- The demand for industrial floor space in the Essex market has continued to gain momentum, standing at 8.6m sq ft, surpassing the previous peak level of 6.9m sq ft earlier in the year. Demand was boosted by the significant upturn in requirements of 50,000 sq ft and above, which accounts for 65% of overall demand.
- There has also been a significant recovery in demand in the 25,001-50,000 sq ft size band, which saw requirements shift up to 1.4m sq ft from 36 separate requirements. Despite the overall increase in requirements there has been a slight weakening in demand for units of below 10,000 sq ft, although this is probably due to take up in this sector of the market remaining quite strong.
- The table above illustrates the relative imbalance between supply and demand through the different size bands of our analysis. A positive market imbalance figure indicates that there is a greater level of supply than demand currently in the market, whilst a negative figure show that the level of requirements in the market currently outweighs the overall supply of floor space.

SUPPLY v DEMAND	SUPPLY		Demand	Market Imbalance
	Grade A	Total		
< 5,000 sq ft	7.0	686.5	219.3	+313.0%
5,001 to 10,000 sq ft	0.0	741.7	278.1	+266.7%
10,001 to 25,000 sq ft	15.4	781.3	1,100.0	-28.9%
10,001 to 25,000 sq ft	30.0	519.1	1,354.0	-61.6%
>50,000 sq ft	292.1	873.8	5,687.0	-84.6%
Total	344.5	3,602.4	8,638.4	-58.3%

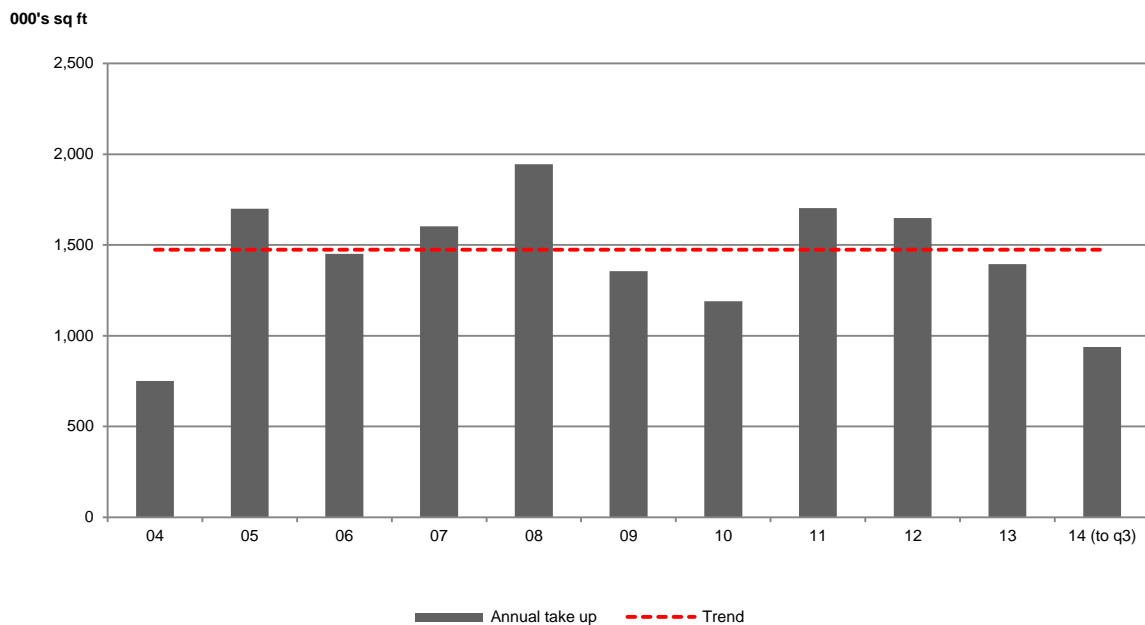
5.3.2 Essex Industrial Market Availability



- Availability has continued to reduce during 2014, with the total floor space on the market at the end of September standing at 3.6m sq ft, down from 4m sq ft at the end of 2013.
- Grade A space was boosted by the completion of LaSalle Investment Management and Roxhill's Basildon Gateway, which provides two units of 107,355 sq ft and 70,665 sq ft, although this addition to stock still means that there are only four buildings of above 100,000 sq ft currently available throughout the region.

- The main focus of availability is in second hand buildings of less than 25,000 sq ft, which accounts for more than 60% of overall stock on the market.
- The availability rate in Essex remains low, standing at 4.8% at the end of q3 2014, down from 8.8% in mid-2012. This reduction in availability reflects the levels of take up over the past few years, a slowing in the release of second hand space onto the market and the limited amounts of new development.

5.3.3 Essex Industrial Market Take Up



- Take up in the Essex industrial market is expected to remain below the 10 year average figure of 1.5m sq ft per annum in 2014, with activity of 955,000 sq ft recorded in the first nine months of the year. Full year activity is expected to total 1.3m sq ft.
- The lack of larger transactions has continued to be a feature of the market, with only two lettings/freehold purchases of above 50,000 sq ft in the first three quarters of the year. The largest transaction over the past six months was the pre-sale of the new 58,000 sq ft unit BAS 55 at Paycocke Road, Basildon to Wolseley.
- Despite the continued strong demand for larger buildings in the Essex region, larger lettings have been restricted by the lack of availability of units of 100,000 sq ft and above, with only four buildings of this size on the market.
- The majority of activity has been focused on transactions of 25,000 sq ft and below, with this sector of the market accounting for 74% of overall activity in the first nine months of the year.

6.0 Alternative Uses and Amenity Provision

In view of Brentwood Enterprise Park's strategic location and quantum we strongly believe that ancillary uses will be attracted to the site including hotel, bank and food and drink operators.

In terms of hotel provision, whilst Travelodge have an existing hotel facility nearby in East Horndon along the A127, they have just announced an active expansion plan throughout London and the Home Counties. Other potential hotel occupiers will include Premier Inn who have sites in prominent business park locations such as Innova Park, Enfield and View 406 Edmonton. We also expect potential interest from Holiday Inn, Accor and Ibis.

Amenity provision for the site will need to cater for the food and drink sectors and we would anticipate strong interest for drive-through sites from McDonalds, KFC, Costa, Starbucks and Pizza Hut. We also expect both Mitchells & Butler and Greene King to seek representation on the site for their various brands as it evolves and develops a critical mass.

The scale of Brentwood Enterprise Park is also likely to necessitate the provision of retail banking facilities as and when a sufficient scale of development has been achieved. We would expect interest from the major High Street banks including Lloyds, Barclays and Santander to secure a small retail facility or kiosk.

7.0 Conclusion

Brentwood Enterprise Park provides an exceptional opportunity to develop an environment to attract B1, B2 and B8 occupiers. The strategic location of the site lends it towards the development of a variety of uses and led by the UK's leading regeneration specialist across all commercial uses, the site has the ability to provide flexibility and phasing to suit occupier's needs. The provision of ancillary amenity will also help the park to become an established, sustainable business environment.

Strong demand has already been received in the site from a wide variety of uses and given the location adjacent to a main junction of the M25; this has initially been led by logistics and distribution occupiers. These occupiers have expressed interest in design and build solutions for a range of sizes and attracting these businesses to the site will be important initially in supporting the viability of the development proposals.

It will be important for the scheme to provide for ancillary and support uses in order to attract and retain businesses that employ highly skilled workers and in particular occupiers with high office needs. This has been incorporated into the latest design masterplan showing a district centre at the heart of the scheme to serve the occupiers.

Substantial work has been undertaken to date on masterplanning the site as well as significant due diligence on environmental conditions, highways and transport, ecology, landscaping, drainage and other key contributing factors. This is vital in proving the deliverability of the site and most importantly a development partner has now been selected with a proven track record. St Modwen Developments Ltd are working closely with all stakeholders and consultants to ensure the site will be delivered, and within appropriate timescales.

We have outlined above the current market conditions for the region and have highlighted a current lack of supply of good quality buildings in both the immediate and wider area. The diminishing supply is coupled with increasing demand and we have more recently seen the return of the development sector with speculative development in the region now complete, as well as further development planned.

When occupiers are considering units that are either newly built or are built to suit, we are also seeing an increasing drive towards more energy efficient buildings which is becoming more prevalent as businesses seek to reduce their overall impact on the environment. This is leading to advancements in building design and sustainability which now allow for the provision of high quality headquarters facilities for occupiers within B1, B2 and B8 use classes.

Whilst Brentwood Enterprise Park represents a significant proportion of the employment land allocation for Brentwood Borough, it provides the most strategic business location when compared to competing employment sites. The site also provides enough scope and



flexibility to accommodate occupiers who may need to be relocated from estates that might be subject to redevelopment for alternative uses.

Ultimately the site, with the development expertise of St Modwen, has the ability to cater for demand in the short, medium and long term. Deliverability will be provided through appropriate phasing and flexibility which will help to ensure Brentwood Enterprise Park becomes an established and sustainable business environment.



Appendix 1 – St Modwen Track Record

Introduction to St. Modwen

- **The UK's leading regeneration specialist:** wholly focussed upon regeneration.
 - **An established business:** a FTSE 250 company with a 25 year track record.
 - **Experienced management team:** extensive operational experience in regeneration and brownfield renewal.
 - **A stable and growing business with a solid balance sheet:** a property portfolio of £1.3b with a see-through loan to value ratio of 30%.
 - **Running costs underpinned by recurring revenue streams from a £539m portfolio of income producing assets:** net rental income typically covers the running costs of the core activities of the business.
 - **We are non-sector specialists :**
 - Commercial development:** Consistent long term, high value commercial redevelopment activity. An active pipeline of commercial development opportunities of over 3m sq. ft.
 - Diverse UK – wide portfolio and long-term development land bank of 5,900 acres:** Not over-exposed to any single scheme, tenant or sector.
 - Residential development:** residential income stream experiencing strong growth via three routes to market – residential land sales, Persimmon Joint Venture and St. Modwen Homes.
 - Active management to increase portfolio value and to reduce development risk:** through planning gains, pre-let, pre-sold and speculative opportunities and increasing the number of design and build projects.
- A portfolio of 150 regeneration projects comprising:** (built, in progress and proposed) over:-
- 5 million sq. ft. of office space
 - 25 million sq. ft. of industrial and warehouse accommodation
 - 5 million sq. ft. of retail accommodation
 - 900,000 sq. ft. of leisure space
 - 30,000 residential plots (to planning recognition)



Meridian Metal. Henlev Park



Adidas at night. Trafford Park



Woodingdean Business Park

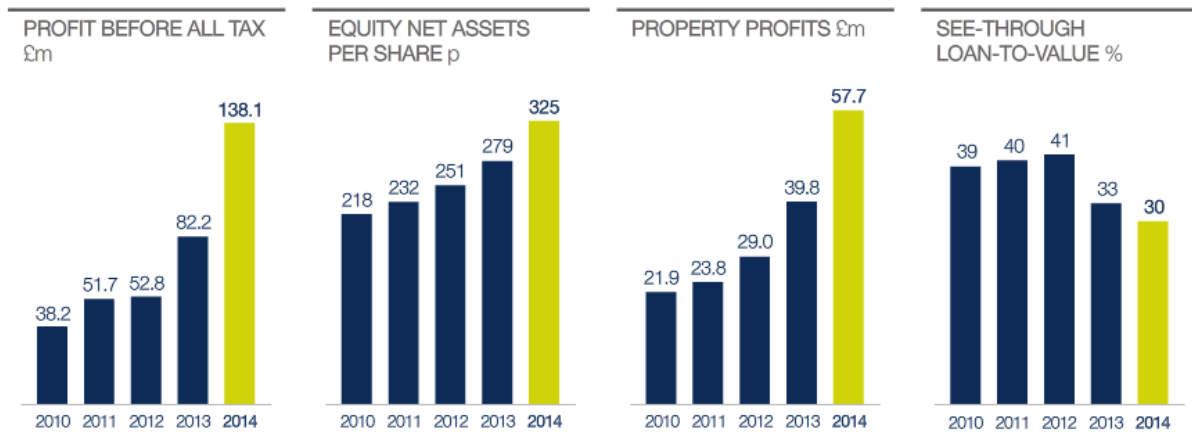


Park Point overlooking Austin Park, Longbridge

Financially Strong

- 2014 was a record year for St. Modwen with excellent increased returns across all performance metrics.

Financial highlights



- 68% increase in profit before all tax to £138.1m (2013: £82.2m)
- Shareholders' NAV per share up 17% to 324.9p (2013: 278.8p), and EPRA NAV per share up 16% to 344.1p (2013: 297.7p)
- Earnings per share up 57% to 52.7p (2013: 33.5p)
- Property profits up 45% to £57.7m (2013: £39.8m)
- Debt portfolio fully refinanced with earliest maturity now 2018 and successful launch of £100m convertible bond
- Total dividend for the year increased by 15% to 4.6p per share (2013: 4.0p per share)

Major Projects



Bay Campus, Swansea



New Covent Garden Market



New Longbridge Town Centre

Further Projects



Siemens, Lincoln



Pets at Home, Trentham Lakes



Longbridge Technology Park



Hemms Heath Colliery 1996



10 years later – Trentham Lakes