Report

GVA
3 Brindleyplace
Birmingham
B1 2JB

Marketing Activities

and

Demand for Employment Development

at

Opus 40 Warwick

April 2014

CONTENTS

1. INTRODUCTION AND PURPOSE OF REPORT 3

2. MARKETING ACTIVITIES 4

3. COVENTRY AND WARWICK OFFICE MARKET 7

4. COMMENTARY IN RESPECT OF GL HEARN WARWICK DISTRICT EMPLOYMENT LAND REVIEW UPDATE MAY 2013 11

5. Financial Viability 18

6. CONCLUSIONS AND COMMENTARY 22

APPENDICES;

VIABILITY APPRAISALS WITH AND WITHOUT LAND VALUE

1. Introduction and Purpose of Report

GVA is instructed to provide a report in support of the submission of an application for detailed planning permission for residential development on an element of the site known as Opus 40, Warwick.

More specifically this report summarises the historic marketing which has been undertaken following acquisition of the site by Opus Land Limited in 2006 and its launch as an occupier opportunity for majority Class B1(b) Research and Development use in Summer 2007. It also summarises GVA's view on the current demand and supply characteristics within the Coventry and Warwickshire office market.

The report also responds to comments and inaccuracies contained within the Warwick District Employment Land Review Update Final Report dated May 2013 in respect of the Opus 40 site. This report was produced by GL Hearn Limited on the instructions of Warwick District Council.

The remainder of this report is structured as follows:

- Marketing
- Coventry and Warwickshire Office Market
- Commentary in respect of GL Hearn Limited Warwick District Employment Land Review Update Report May 2013
- Financial Viability
- Conclusions and Commentary

Accordingly, we report as follows:

2. Marketing

Opus Land Limited (Opus) initially agreed to purchase the freehold of the former IBM Warwick Campus extending to circa 14.13 hectares (35 acres) gross in 2006. The transaction included the simultaneous sale to Mapeley of buildings extending to circa 190,000 sq ft which were subject to a lease to IBM. This left potential development land (subject to obtaining planning approval) extending to circa 3.63 hectares (9 acres) gross and a Phase 3 building extending to 85,000 sq ft over 3 storeys (which had been vacated by IBM). The remaining freehold in the site was retained by Opus.

Following the purchase of the site, GVA and D&P Holt were instructed on a joint agency basis to market the Phase 3 building and the development land, as Opus 40 Warwick. A marketing strategy was instigated with a sizeable marketing budget focusing on pre-let opportunities for the land and the search for occupiers for the phase 3 building, which was subject to a full refurbishment and letting on a floor by floor basis, or as a whole.

Marketing of the site included the production of a bespoke 8 page brochure for the development land and a 4 page brochure for the Phase 3 building, to be known as Point 3. Alongside the brochure, local, regional and national advertising was undertaken, as well as erection of 'To Let/For Sale' boards fronting the Birmingham Road and Wedgenock Lane. A mailing campaign comprising of an A5 flyer to the top 500 local occupiers and all occupiers with-in a 15 miles radius of Opus 40 employing more than 100 staff was undertaken. This process was repeated on a number of occasions.

A launch was also held in the summer of 2007 on site for all West Midlands office agents, to maximise market knowledge of the opportunity.

Shortly after the official launch, discussions commenced with Telent (formally part of Marconi) to take a pre-let of the entirety of Point 3. Key to attracting Telent to Opus 40 was the car parking provision and the comprehensive refurbishment of the building. This deal was completed in May 2008 with the investment being sold to Hildane Properties. An additional parcel of land was identified for the development of a Premier Inn Hotel the freehold of which was sold in November 2008.

From the commencement of the marketing campaign, every opportunity to market the scheme was taken including press releases, particularly following the office agents launch, obtaining planning for the site in January 2011 and the pre-let to Telent. D&P Holt were also replaced with joint Agents Bromwich Hardy in Coventry.

However, following the pre-let to Telent and the subsequent investment sale, occupier confidence declined significantly given the economic downturn and climate in 2008. Throughout the recession and the subsequent improving market conditions from circa mid 2009 onwards Opus have continued the marketing of the development site. This marketing focused on occupier requirements for new buildings from circa 10,000 sq ft upwards. During the marketing period Opus have spoken with several confidential occupiers seeking new B1(a) office accommodation. However, it has not been possible to secure pre-lets or sales on the development site. Aside from the issue of the required B1(a) consent, the markets in which the potential occupiers operate have been volatile and subsequently have been unable to commit to long term terms which would allow to fund the development and pre sell the investment to institutional funds. In the main across the Midlands, occupiers have focus on ultimate flexibility whilst considering new premises and/or regearing their existing lease, largely looking to commit to lease terms of 2 to 5 years. Enquiries for B1(b) occupiers for Opus 40 have been extremely limited and have been more footloose across the Midlands than specific to Warwickshire.

After a circa 6½ years marketing period from the date of the initial launch event all local and regional occupiers that would consider relocating to Opus 40 have been contacted and have subsequently ruled out the opportunity.

Given the continued lack of demand in the market there is considered to be no real prospect of the site coming forward for majority Class B1(b) Research and Development use. This position also reflects the significant existing supply within the market, as will be discussed below.

3. Coventry and Warwickshire Office Market

Opus 40, is located to the North of Warwick Town Centre and has competed on a regional basis with larger recognised business parks and Coventry City Centre for pre-let opportunities.

Existing Supply

Coventry and Warwickshire has an established office market in the out of town business parks as well as Coventry city centre, which have attracted regional, national and international companies including BT, Severn Trent Water, The Coventry, Ericsson, P@rtal, National Grid, Rolls Royce, Accenture, Telent and McKesson.

Coventry has an estimated total stock of 5.6 million sq ft with approximately half a million square feet completed in the last 7 years, with only 20% of this newly developed space built speculatively.

Coventry City Centre has seen little new development since the 1950's and 1960's when much of Coventry was re-built after the War. The market is defined and bound by the Inner Ring Road. There is no defined central business district and as a result, the office stock is located on the inside and around the edge of the Ring Road. There have been many initiatives to regenerate the City Centre and a large pre-let to Severn Trent Water was secured in 2010 for 170,000 sq ft, however the majority of other schemes have stalled during the recession. The one exception is Friargate, a brand new 3.2 million sq ft office-led mixed use regeneration scheme on 37 acres adjacent to Coventry railway station, which is advancing and has recently announced a pre-let of 140,000 sq ft to Coventry City Council and 36,000 sq ft to RICS.

The business parks within Coventry have seen the greatest growth since the 1980's as they have provided a supply of large, cost effective sites which have been suitable for large national companies looking for HQ buildings, call centres or back office functions. The business parks are located around the M6 to the north of the City Centre, the A45 Coventry By-pass to the south of the City Centre and the A46 By-pass that links Coventry to Warwick and Leamington Spa. Westwood Business Park provides 800,000 sq ft of office accommodation where Barclays, the RICS, TUI UK and E.on plc have located and Binley Business Park, which has attracted The Coventry (formally Coventry Building Society) and the

National Farmers Union. Out of town development takes account of 73% of all office construction over the last 7 years.

Warwick and Leamington Spa, provide the majority of office stock in Warwickshire which is estimated to be in the order of 1,600,000 sq ft, the largest park being Warwick Technology Park which is home to National Grid (360,000 sq ft), Conoco Philips (30,000 sq ft), Tulip UK (50,000 sq ft) and Rolls Royce (50,000 sq ft).

The business parks in Warwick and Leamington Spa are largely located between the 2 towns situated along the A452 and A425, with the exception of Tournament Fields which are accessible immediately off the M40/A46 leading directly to Coventry.

The key office transactions since 2009, both in town and out of town within Coventry and Warwickshire include the following:

Occupier/Address	Area Sq Ft	Details
Severn Trent Midlands HQ, St Johns Street, Coventry	170,000	• Pre-let • City centre • Completed Q4 2010
Phase 1, Ericsson Ansty Technology Park, Coventry	134,000	• Pre-let to Ericsson • Completed Q2 2009 • Ericsson have subsequently vacated and the accommodation has been assigned to Sainsbury's plc • Business park
Qualifications and Curriculum Authority HQ, Earlsdon Park, Butts Road, Coventry	65,000	• Pre-let • Completed Q2 2009 • Edge of city centre • Now vacated as the Authority was disbanded in the first half of 2012
Former BT building, Little Park Street, Coventry	35,000	• Speculatively re-built at the start of the refurbishment but then taken by BT • Completed Q2 2009 • City centre
P@rtal, former Bankfield House, 163 New Union Street, Coventry	33,000	• Purpose-built • Completed Q1 2009 • City centre

Occupier/Address	Area Sq Ft	Details
Rolls Royce - Iceni, Warwick Technology Park	50,000	• Speculatively built in 2000 • Extending in total to 75,000 sq ft • Remained largely empty from 2000 to 2010 • Initially taking the first floor, they latterly took the entire ground floor.
Guerbit, Tournament Fields, Warwick	15,000	• Pre let in 2010
Telent, Opus 40, Warwick	85,000	• Pre let in 2007 which involved a complete refurbishment of an existing building.
Coventry City Council, Friargate, Coventry	140,000	• Pre let in April 2014 • First building in a major regeneration scheme in Coventry City Centre • Occupation Q1 2016
RICS, Friargate, Coventry	36,000	• City Centre regeneration scheme • Occupation Q1 2017 • Development will involve speculative development of 54,000 sq ft

Pipeline Supply

There is currently estimated to be 10.4 million sq ft of office space in the Coventry development pipeline, of this, 8.3 million sq ft has planning permission and 2.1 million sq ft is more preliminary. Of the space planned, there are 19 schemes of over 100,000 sq ft and 15 between 50,000 and 100,000 sq ft by location, 30% of the space planned is within the City Centre and 70% is out of town. In Leamington Spa and Warwick, development pipeline equates to c1.5 million sq ft which has planning permission for office development.

There are few major schemes focused on the regeneration of the Coventry City Centre. Sitting adjacent to Coventry railway station, Friargate will be a brand new 3.2 million sq ft office led, mixed use regeneration scheme, being undertaken by Friargate Coventry LLP, occupying a 37 acre site fronting Station Square and connecting with Coventry City Centre. As a result of the pre let to the RICS, 54,000 sq ft of Grade A office accommodation will be speculatively developed and ready for occupation in Q1 2017.

Importantly there has been no speculative development in the Warwickshire area over the past 5 years; this is attributed to the existing supply but in the main, the lack of demand. The lack of confidence to speculatively build office buildings has worsened following the change of legislation in relation to the payment of void rates. The majority of occupiers since 2007 have been particularly cautious with any future office move, given the instability in the economy, and therefore committing to an office move and tying themselves into a long lease was not on the agenda; flexibility has been key.

Demand

In line with Regional office markets, Coventry and Warwickshire has seen a subdued office take-up in recent years, however there have been a number of major transactions over 30,000 sq ft. It should be noted that the large percentage of letting deals relate to accommodation below 10,000 sq ft. Over the last 6 years, manufacturing, utilities and distribution have been the key drivers of demand accounting for a more than half of total take-up.

The banking sector provides some of the largest office employers in Coventry with Barclays, HSBC and The Coventry occupying large back office and call centre functions in numerous out of town business parks, such as Westwood Court and Binley Business Park. Within the insurance sector, both AXA Wealth and BGL Group occupy offices within Coventry.

Major utilities firms are also amongst the largest employers in Coventry including National Grid, E.on UK and Severn Trent Water.

Significant public sector employers include HM Land Registry, Inland Revenue and Warwick and Coventry Councils.

Whilst in Warwick and Leamington long established occupiers continue to have confidence in the region, including Aston Martin, JLR, Wright Hassell, National Grid, Wolseley, Arqiva, Fujitsu, Roll Royce, McKesson and Millward Brown.

The pre-let market is extremely flat at present not only in Coventry and Warwickshire but across the UK outside of London. GVA have recently produced their latest Business Park Review Figures and reported that there is currently 875,000 sq ft under construction across the UK business parks of which 350,000 sq ft is speculative development, notably there Is no speculative development in Coventry and Warwickshire. In addition we are experiencing an increase in the freehold sale of existing office buildings to owner occupiers or for change of use. In addition, an increased amount of land earmarked for offices is subject to a change of use for leisure, hotel, pub or industrial.

4. Commentary In Respect Of GL Hearn Warwick District Employment Land Review Update

In support of the application for residential planning approval on the site GVA has been instructed to review and comment on the Warwick District Employment Land Review Update Final Report dated May 2013. This report was completed by London based GL Hearn Limited on the instructions of Warwick District Council. The Employment Land Review Update was commissioned to help inform and support the new Local Plan for the District which will set out planning policies and allocate land for development over the period to 2029. The report was intended to deal principally with local employment land issues, rather than regional or sub-regional employment land provision. In this context the report makes various references to the Opus 40 site, elements of which we believe warrant further consideration and scrutiny given the proposed change of use from employment to residential use. Accordingly, we comment on the various points in the order they appear within the GL Hearn report as follows:

Figure 11: This table identifies Opus 40 as one of the '*Existing Key Out-Of-Town Office Locations in Warwick District*'. This identification is inaccurate as it suggests that the entire site is an out of town office location. IBM and Telent do have existing operations on site utilised for research and development. However, Warwick District Council resisted office development on the undeveloped elements of the site, other than a very small element. In this respect, the planning permission which was eventually approved was for majority B1(b) Research and Development.

Paragraph 4.21: This section of the report includes an office market summary. This summary includes the statement '*All generally successful with few vacancies*' in the context of Out-of-Town locations, one of which is identified as Opus 40. This is misleading given that Opus 40 has consent for majority B1(b) Research and Development use and not an open B1(a) office use. In addition, as detailed within Section 2 above the entire development element of the site remains vacant after a circa 6½ years marketing period.

Figure 16: This table provides a review of the existing main employment land locations within Warwick District with Opus 40 identified at item 7 within the table. The summary comments within the table include the statement '*Planning permission for office development on land currently utilised for car parking*'. As detailed above this statement is factually incorrect given

that the remaining undeveloped element of the site which accommodates the land currently utilised for car parking has planning permission for majority B1(b) Research and Development use.

Figure 17: This table provides a review of employment land supply in Warwick District as at April 2013 with Opus 40 identified at item 8 within the table. The summary comments within the table include the statements '*Planning permission for a further 26,000 sq m of office development*' and '*Good, accessible prominent location*.' As detailed above, the first comment is factually incorrect given that the planning consent is for majority B1(b) Research and Development use.

In addition, we believe that the second comment is also inaccurate. The eventual grant of planning permission on the site followed detailed and protracted discussions/negotiations with the Highways Authority. These culminated in permission only being given subject to the construction of a new and costly access from the A46/Birmingham New Road roundabout together with associated signalling. These costs have implications on development viability. The site also has a limited frontage onto Birmingham New Road with the frontage onto the A46 being visually restricted due to the junction slip road at this location, the topography of the site and the existing trees/undergrowth.

Figure 25: This table forecasts net land requirements to support net forecast employment growth. In this respect, for the period 2011-2030 (broadly consistent with the plan period) the table identifies a net land requirement of 31.1 hectares. Figure 17, as referred to above, identifies an employment land supply in Warwick District as at April 2013 of 73.1 hectares. The loss of the 3.7 hectares at Opus 40 would have negligible impact on the level of supply.

More significantly, Opus 40 would not be suitable for industrial warehousing development. This use often requires the flexibility of a 24/7 operation which would result in significant disturbance to the existing occupiers and adjoining residents. This disturbance would include significant HGV movements with the resulting noise and fumes together with additional strain on the local road network. **Paragraph 9.19**: This paragraph forms part of GL Hearn's Conclusions and Recommendations section. Within this section of the report GL Hearn identifies several sites where '*future development for alternative uses may be appropriate*.' It is noted that this includes the Councils civic offices at Riverside House, Leamington Spa, an edge of centre office site. It is not known why this site in particular has been identified.

Paragraph 9.20: As a further element of their Conclusions and Recommendations GL Hearn state within this paragraph that '*There is a need for the provision of good quality new office provision within town centres to improve the range of accommodation available to occupiers*.' In this respect Opus 40 is an out of centre location with planning permission for Research and Development use. The site does not therefore align with the identified need.

Paragraph 9.26: This section of the GL Hearn report makes reference to the CSW Sub-Region Employment Land Study previously produced by DTZ. In particular, GL Hearn considers that the set of tests (A to F) adopted within the DTZ report remain relevant and appropriate to assessing the potential for release of employment land. We comment further on these tests in relation to their application to Opus 40 as follows:

A. '*Is the site allocated for employment land? The assumption is that allocated sites are protected.'*

   Opus 40 is not an allocated site.

B. '*Is there an adequate supply of allocated employment sites of sufficient scale in the locality*.'

   As discussed above, within their report GL Hearn identifies an employment land supply within Warwick District of 73.1 hectares as at April 2013. This compares with an identified net employment land requirement of 31.1 hectares for the period 2011 – 2030.

D. '*Is there evidence of active marketing? We would recommend a requirement for active marketing for 2 years*.'

   As detailed above, the site has been marketed for in excess of 6½ years.

E. '*Could employment redevelopment be brought forward, taking account of site characteristics (including physical factors, accessibility and neighbouring uses) and would redevelopment be viable? If employment development is not viable, could mixed use redevelopment be brought forward?*'

   We are advised by Opus that the estimated costs associated with constructing the new access from the Birmingham New Road/A46 roundabout into the site and the associated signalling are in the order of £2.6m plus professional fees. This has significant implications on the viability of developing the site for employment use, when combined with the impact on projected revenues following the economic downturn and increase in build costs, irrespective of the lack of market demand. We are further advised that these construction works, including the required approvals/consents, would take in the order on 12 months. This has further implications on the build programme, cash flow and in-turn viability of development for employment use.

Whilst economic activity has improved over the last 18 months or so, this has not resulted in demand for B1(b) development on the subject site which remains undeveloped.

F. ‘*If firms are likely to be displaced through redevelopment, is there a supply of alternative suitable accommodation in the locality to help support local businesses and jobs.*’

No firms will be displaced through redevelopment of the site for alternative residential development.

Appendix B: This appendix is included at the back of the GL Hearn report and comprises a ‘Site Assessment Summary’. This summarises the results of the assessment pro-forma produced by GL Hearn against which each of the existing employment locations have been assessed, including Opus 40. The assessment is based on a range of qualitative criteria adopted by GL Hearn. However, based on a review of the assessment undertaken in relation to Opus 40 we believe that a number of the outputs are inaccurate or flawed. We comment on these as follows:

Access: The site is scored a maximum mark of 5 for this criteria as being *’either adjoining main road or motorway junction with easy site access for all vehicles or access to rail, air and sea networks.*’

As detailed above, this assessment ignores the fact that redevelopment is not accessible without an entirely new access arrangement which would be at significant cost.

Strategic Location: The site is scored a maximum mark of 4 for this criteria as being on a ‘*Motorway Corridor’*.

This assessment is incorrect as the site is not on a motorway corridor.

Availability: GL Hearn state that the '*Site is advertised as being available/there are no obvious obstructions to immediately develop the site.*'

As identified above while the site has been marketed for circa 6½ years it is not immediately available due to the lack of access. The costs and timeframe associated with constructing the access and the implications on development viability are a major constraint on development of the site for employment. The lack of access means that there is no certainty on the timeframe for the delivery of new premises which is a major factor in discouraging companies from giving a firm commitment to invest in the site. However, no prudent developer would commit to incurring the significant costs associated with delivering the access on a speculative basis. In this respect, a significant pre-let would be required before a commitment to the new infrastructure can be supported. It has clearly not been possible to achieve this, even in the improved economic conditions over recent months.

Market Attractiveness: GL Hearn scores the site at a maximum of 3 for market attractiveness which identifies the site as being '*attractive to National companies.*'

As detailed above, the site has been marketed on a local, regional and national basis for circa 6½ years without success. The market evidence is clearly therefore contrary to GL Hearn's stated view.

Planning Status: The GL Hearn assessment appraises the site as a 4 as having '*Outline planning permission*.'

However, we consider it fundamental that the permission was for majority B1(b) Research and Development and not an open office consent as incorrectly identified by GL Hearn throughout their report. Warwick DC specifically resisted the use of the site becoming an office park because of it's out of centre location.

Economic Constraints: GL Hearn appraises the site as a 4 as having '*Minor obstacles to development; relatively easy, quick and cheap to resolve.*'

As detailed above, this does not reflect the true position on the ground. The planning conditionality stipulates that the site can only be developed for employment use if a new access is constructed off the Birmingham New Road/A46 junction together with associated signalling. In this respect, we are advised that the cost of construction has been estimated at £2.6m plus professional fees with a construction programme which is likely to last 12 months. Given the lack of demand for the site, as demonstrated by the circa 6½ year marketing period to date, there appears to be no prospect of securing a pre-let or sale. As such, no prudent developer would commit to the estimated cost of constructing the access without the guarantee that the expenditure would be recovered. The lack of access does not therefore represent a minor obstacle or one which is easy, quick or cheap to resolve. In conclusion, we believe that the analysis undertaken by GL Hearn and the conclusions reached as detailed within their report are not robust in relation to the subject site. Their report includes factual inaccuracies and a lack of comprehension as to the reality on the ground. As such, we believe it is incorrect for them to support the sites retention for employment use.

5. Financial Viability

In order to test the delivery of the consented majority B1(b) scheme we have undertaken an assessment of its financial viability. This has been undertaken on the Proval electronic appraisal tool which is commonly used within the development sector.

The appraisal is based on a development of 257,840 sq ft of B1 office space across four buildings. The appraisal completed is based on the below building sizes on an assumed standard 85% gross to net ratio.

Building	Gross Internal Area (constructed)	Build Period	Net Internal Area (leased)
Building 1	123,750 sq ft	18 months	105,187 sq ft
Building 2	68,530 sq ft	12 months	58,250 sq ft
Building 3	33,390 sq ft	9 months	28,381 sq ft
Building 4	32,170 sq ft	9 months	27,344 sq ft

The additional following assumptions have been utilised in completion of the appraisals:-

1. A minimum site value of £250,000 per acres has been adopted based on the net developable 7 acres. The gross acreage of the site is in the region of 9 acres. The minimum land value is currently on the lower side of what has been achieved in the area.

2. We understand the site is elected for VAT therefore VAT is included in the stamp duty.

3. Build costs are based on May 2014 RICS BCIS build costs for 3-5 storey office buildings with air conditioning, rebased to Warwick.

4. Assumed fees of 5% for contingency, project management 3% and professional fees 10%.

5. Given the amount of space delivered, joint agents have been assumed however, a sole investment agent is assumed. A marketing budget of £150,000 has been assumed.

6. The S.106 cost includes a contribution to deliver the new access road from the roundabout at £2.6m.

7. A finance rate of 6% has been adopted, which is reflective of moderate risk.

8. The appraisal assumes an initial rent of £16.00 per sq ft rising by £0.50 per sq ft on each letting. The yields adopted are reflective of assumed covenant strength and lease term.

9. In profiling the costs each building is investment sold on completion, with a 12 month lag between one building completing and the next commencing.

The Appraisal as attached as an appendix to this report produces a considerable loss in excess of £7,000,000 and accordingly it is clear that any redevelopment for the current consented proposals will not go ahead. This loss does not include any allowance for developer profit, which on a development of this size would be in the region of 15% profit on cost. Furthermore, we anticipate the appraisal would be even more challenging should the offices be restricted to B1(b) only.

In order to further establish the question of viability we have completed a number of sensitivities on the appraisal to understand viability should the market improve. The tables below outline the impact on the appraisals based on rental or yield improvement, or both:-

Increase in rental by 2.5% per sq ft

Rent Range £	% of Value	Profit	Profit/Cost %	Total Sales	Total Costs
16.00 – 17.50	100.00%	-7,075,859	**-14.69%**	41,083,497	48,159,356
16.40 – 17.94	102.50%	-5,821,076	**-12.14%**	41,111,244	47,932,319
16.80 – 18.30	105.00%	-4,651,680	**-9.56%**	43,142,540	47,704,219
17.20 – 18.81	107.50%	-3,313,232	**-6.98%**	44,164,100	47,477,331
17.60 – 19.25	110.00%	-2,058,448	**-4.36%**	45,191,846	47,250,294
18.00 – 19.69	112.50%	-803,664	**-1.71%**	46,219,593	47,023,258
18.40 – 20.13	115.00%	453,050	**0.97%**	47,250,889	46,797,839

Despite a 15% increase in the initial rents to £18.40-£20.13 the appraisal is still unviable and does not generate a profit to deliver the development.

Improvement in yield by 2.5%

Yield Range	% of Value	Profit	Profit/Cost %	Total Sales	Total Costs
6.1% - 6.5%	87.50%	1,373,091	**2.95%**	47,913,958	46,540,867
6.3% - 6.75%	90.00%	-443,961	**-0.95%**	46,396,077	46,840,038
6.47% - 6.9%	92.50%	-2,236,366	**-4.74%**	44,960,245	47,196,611
6.65% – 7.12%	95.00%	-3,934,434	**-8.28%**	43,599,982	47,534,416
6.8% – 7.3%	97.50%	-5,545,421	**-11.59%**	42,309,477	47,854,898
7.0% - 7.5%	100.00%	-7,075,859	**-14.69%**	41,083,497	48,159,356

Again, as with the assumed rental increase sensitivity analysis, despite a 12.5% improvement in the yield the development is unviable and does not generate sufficient profit to be delivered.

Improvement in rental by 2.5% and yield by 2.5%

	£16.00 - £17.50	**£16.40 - £17.94**	**£16.80-£18.30**
6.3%-6.75%	-443,961 -0.95%	945,472 2.03%	2,225,899 4.79%
6.47%-6.9%	-2,236,366 -4.74%	-860,561 -1.83%	516,121 1.11%
6.65%-7.12%	-3,934,434 -8.28%	-2,601,093 -5.50%	-1,262,841 -2.68%
6.8%-7.3%	-5,545,421 -11.59%	-4,252,366	-2,954,553 -6.24
7.0-7.5%	-7,075,859 -14.69%	-5,821,076 -12.14%	-4,561,680 -9.56%

The above table demonstrates the impact on the deficit and developer profit as a result of an assumed increase in rent and improvement in yield. As can be seen, based on the scenarios modelled the development remains unviable.

The above demonstrates how increases in the rent and/or an improvement in the yield affect the viability. However, even with a rental increase and a yield improvement the appraisal still does not generate anywhere near the required 15% profit on cost, and therefore development would not proceed on this basis.

We have demonstrated how improvements in value effect the appraisals although we would also advise that should any costs for example, the build cost increase or rental value decreases, this would have a further significantly detrimental effect on the appraisal, making the loss higher than the current £7,000,000.

Finally, we have completed a second appraisal on the basis of no land value, which is not a realistic scenario. We attach a copy of this appraisal as an appendix to this report. However, even in this scenario the appraisal continues to generate a loss of over £4,000,000. Again this confirms that development would not proceed on this basis.

6. Conclusions

As detailed above, Opus acquired the subject site in 2006. It was launched as a leasehold and freehold opportunity in the summer 2007 with marketing having therefore continued for circa 6½ years. The site remains undeveloped with there being no real prospect of it coming forward for the approved majority B1(b) Research and Development use.

In addition to the general lack of demand in the market the lack of demand at Opus 40 reflects the significant existing supply in the market, much of which is in more desirable locations. In this respect, there has been demand in the market for these more desirable sites, as seen in the recent lettings at Friargate in Coventry. The large more established business parks within the district have also continued to attract occupiers, as detailed in section 3 above.

No speculative development has occurred in the Warwickshire area over the past 5 years. In general the pre-let market is extremely flat at present, not only in Coventry and Warwickshire but across the UK outside of London.

As detailed above, we consider that there are inaccuracies within the GL Hearn report which forms part of the evidence base for the provision of employment land within the District, including Opus 40. The planning permission granted on the site was for majority B1(b) Research and Development use, not office use. Opus 40 is not therefore one of the key Out-of-Town Office Locations in Warwick, as stated within the report. GL Hearn further state incorrectly that the site has consent for 26,000 sq m of office development.

We also consider that the site is not in a good accessible prominent location as stated, due to the lack of an existing access for the approved scheme and a lack of visibility.

GL Hearn also state that over the period 2011-2030, which is broadly consistent with the plan period, there is an estimated net employment land requirement of 31.1 hectares. This compares with their estimate of 73.1 hectares of supply over the period. The loss of the 3.7 hectare Opus 40 site would therefore be insignificant.

The GL Hearn report further states that there is a need for the provision of good quality new office accommodation within Town Centres. Opus 40 does not align with this identified need.

In relation to the tests which GL Hearn maintain should be applied when assessing the release of employment land for alternative uses we reiterate the following comments:

- Opus 40 is not an allocated site;
- There is an adequate supply of employment land within the District, well above the identified need;
- The site has been marketed for 6½ years, well above the 2 years recommended within the GL Hearn report;
- We consider that the lack of access into the site and the significant costs associated with the provision of a new access and signalling has a significant impact on viability. Development viability has also been impacted by the recession and reduced revenues together with a general increase in build costs;

In relation to the site assessment undertaken by GL Hearn we believe that a number of the outputs are inaccurate or flawed, as follows:

- The assessment ignores the fact that the approved redevelopment is not accessible without the construction of a new and costly access and signalling;
- The site is not immediately available due to the lack of access;
- The site is identified as being attractive to national companies. This is clearly not the case as it has been marketed for 6½ years without success, although lettings to national firms have been agreed in more desirable locations and on more desirable sites within the district; and
- We do not consider that the site has minor obstacles to development for employment use which are relatively easy, quick and cheap to resolve as stated. The site is not currently accessible for the approved use. The cost of constructing the access and signalling is estimated at £2.6m plus professional fees. It is estimated that construction would take in the order of 12 months, including obtaining necessary consents/approvals. There is also no prospect of a pre-let which could potentially give any developer the confidence to commence the works.

In addition, as detailed within Section 5 of this report we believe that financially, the development is a long way from being financially viable. As further demonstrated by the sensitivity analysis we have undertaken the development remains unviable even after an assumed increase in rental values and an improvement in investment yields.

Alternative residential use has only been contemplated following the lack of demand for employment following a lengthy marketing period and initial positive discussions with the LPA in respect of this alternative use.

We strongly believe that the current market conditions and site specific constraints are such that there is no reasonable prospect of the site coming forward for Class B1(b) development.
GVA Grimley Limited
April 2014