

Oldlands Farm, Bognor Regis

Assessment of Enabling
Development Options

October 2008

Supplementary Viability Report

Supplementary Viability Report

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Executive Summary

1. Oldlands Farm is a 20 hectare (50 acre) site to the north of Bognor Regis on the fringe of the existing urban area. It is allocated in the Arun Local Plan for a High Quality Business Park.
2. In September 2007 Drivers Jonas LLP prepared a report demonstrating that the delivery of a High Quality Business Park on Oldlands Farm was not financially viable due to high upfront infrastructure costs and low occupier demand and hence, some form of enabling development was required. It was proposed that this enabling development would be in the form of an ASDA foodstore.
3. In January 2008 Asda submitted a planning application for the development of Phase 1 of Oldlands Farm (circa 8.3 hectares or 20.7 acres) as a foodstore (7,507 sq m GEA) and a High Quality Business Park (19,500 sq m GEA). This application is currently being determined by Arun District Council.
4. Since September 2007 there has been a considerable decline in property market values. As a result, the delivery of a High Quality Business Park at Oldlands Farm has moved further away from representing a viable stand alone development option.
5. This supplementary assessment report considers alternative forms of enabling development (other than a foodstore), the value and market demand for these uses, and their ability to enable the development of a High Quality Business Park at Oldlands Farm.
6. This report has assessed the market demand for a variety of uses and as a result of this assessment has sought to test four development scenarios. Analysis of these scenarios has demonstrated that:
 - A B2/B8 led scheme produces a negative land value - and cannot produce sufficient revenue to enable the development of a High Quality Business Park at Oldlands Farm
 - A mixed use scheme produces a nominal land value - but the entire site is required for development. Hence there is no land remaining for development for a High Quality Business Park. Further, this option would create a scheme that would be challenging in conforming with urban design principles
 - A residentially led scheme produces a nominal land value - but the entire site is required for development. Hence there is no land remaining for development for a High Quality Business Park. The delivery of residential uses is compounded by the delivery of the 1,350 residential units to the east and west as part of Policy Site 6
 - A retail led scheme, complimented by residential uses, produces nominal land value - but the entire site is required for development. Hence there is no land remaining for the development of a High Quality Business Park
7. The issues in the UK banking system and subsequent declines in the UK property market has undermined viability considerably. This is compounded by cost inflation and an increase in the infrastructure costs associated with servicing the site.
8. Alternative land uses to a foodstore are unable to enable a High Quality Business Park at Oldlands Farm.

1. Introduction

- 1.1 There is a proposal for a High Quality Business Park at Oldlands Farm enabled by a foodstore. Arun DC and its consultants EDAW/DTZ have questioned the sole reliance on a foodstore as a means of enabling development and have requested that alternative forms of enabling development to deliver a High Quality Business Park at Oldlands Farm are tested.
- 1.2 In this report we consider the market demand for, and value of, alternative land uses. In testing realistic alternative forms of enabling development it is necessary to identify those uses for which there is likely to be real demand, otherwise there is little possibility that development will be delivered by the market.
- 1.3 In considering the delivery of alternative uses we have not undertaken a formal masterplanning exercise or prepared specific schemes. This report presents a theoretical independent assessment of demand, value and cost, and considers various alternative enabling scenarios at Oldlands Farm.
- 1.4 The theoretical mix of uses that has been tested present a variety of design and commercial issues. These are commented on within this report.

Background & Report Scope

- 1.5 Oldlands Farm is allocated for a High Quality Business Park in the Arun Local Plan 2003. As well as being the Employment Allocation of Policy Site 6, this aspiration forms part of Arun's strategy for the regeneration of Bognor Regis.
- 1.6 In January 2008 Asda submitted a planning application for a foodstore and a High Quality Business Park at Oldlands Farm. One of the principles supporting this application was that, based on a Viability Report prepared by Drivers Jonas in September 2007, a foodstore would enable the future development of a High Quality Business Park, by funding the infrastructure costs associated with developing the site.
- 1.7 The September 2007 Viability Report concluded that there is little prospect of the High Quality Business Park, over the entire Phase 1 of the Oldlands Farm site, being delivered by the market.
- 1.8 The delivery of a High Quality Business Park (on its own) is unviable due to:
 - n the upfront infrastructure costs associated with providing the required service to the site (circa £6.5 million – September 2007)
 - n low level of rents and levels of annual take up (this will have been compounded by recent market declines)
 - n based on the above the projected returns are a long way short of what they would need to be for a developer/bank to commit the necessary equity/debt to purchase and invest in the site
- 1.9 The September 2007 report proposed that development of a Business Park at Oldlands Farm was unviable, without some form of enabling development. In this case, it was presented that an Asda foodstore would enable the development of a High Quality Business Park at Oldlands Farm.
- 1.10 Asda's planning application (BE/1/08) is currently in the process of being determined by Arun DC. This application is for 7,507 sq m GEA for an Asda foodstore and for 19,500 sq m GEA of High Quality Business Park.

Proposal - High Quality Business Park

Value of alternative land uses

Drivers Jonas viability report September 2007

Little prospect of a High Quality Business Park

SUPPLEMENTARY VIABILITY REPORT

- This is shown on the illustrative Master Plan drawing (ref:05.058.25 at Appendix 2).
- 1.11 This report considers the ability of other forms of enabling development i.e. alternative land uses other than a foodstore, and their ability to enable a High Quality Business Park at Oldlands Farm.
- 1.12 In testing the enabling ability of alternative land uses at Oldlands Farm we pose the following questions:
- n Can alternative land uses generate sufficient value to fund upfront infrastructure costs?
 - n Is there sufficient market demand for any alternative land uses?
 - n Are these land uses suitable/deliverable at Oldlands Farm?
 - n If alternative land uses are viable/deliverable at Oldlands Farm, then what is the quantum of the site required for these uses and hence what extent of land is remaining for development as a High Quality Business Park?
- 1.13 This report should be read in conjunction with the Viability Assessment that was prepared by Drivers Jonas in September 2007.

Town Planning

- 1.14 The Oldlands Farm site forms part of an allocated urban extension to the north of Bognor Regis under Policy Site 5 and Policy Site 6 of the Adopted Arun District Local Plan 2003. This urban extension includes the provision of the High Quality Business Park at Oldlands Farm, 1,350 residential dwellings at Felpham and Bersted (to the south east and west of the site) and the new A259 relief road. Outline planning consent and the associated legal agreements for the delivery of the housing and relief road have been secured.

Policy Site 6

Site description

- 1.15 Oldlands Farm has a total area of approximately 20 ha (50 acres) and is in a prominent location adjacent to the existing A29. The site is bounded by the Southern Cross Industrial Estate to the south, Bognor Regis coastal railway to the east and the A29 and approved relief road to west and north. The site is largely level and is currently in agricultural use.
- 1.16 A Site Plan and Location Plan are attached at Appendix 1.
- 1.17 This report only considers the allocated western portion of the site (hatched red on the Site Plan). This portion of the site has a total gross developable area of approximately 8.38 hectares (20.7 acres). This portion of the site has always been recognised as Phase 1 of any development at Oldlands Farm.
- 1.18 The eastern section of the site, always recognised as Phase 2 (hatched green on the Site Plan), covers approximately 11.35 hectares (28.05 acres) and has a reserve allocation in the Adopted Local Plan, subject to the agreement of an appropriate flood risk mitigation strategy.
- 1.19 Assessment of Phase 2 land by a flood risk specialist has demonstrated that the development of Phase 2 would be achievable by providing flood attenuation on adjacent land which is owned by the current landowner of Oldlands Farm. As a result, Phase 2 could be developed.
- 1.20 This assessment of alternative forms of enabling development seeks to test only the viability of Phase 1 i.e. the allocated land. Once the viability of Phase 1 has been successfully demonstrated, and it has been built out,

20 hectares

Allocated site

Reserve Allocation

Phase 1 viability

detailed consideration can then be given to the development of the additional land in Phase 2.

- 1.21 This assessment does not refer to Phase 2 land except that it is a key assumption that the servicing infrastructure provided as part of the development of Phase 1 must be sufficient to service Phase 2. Therefore, some of the costs of developing Phase 2 have to be borne by Phase 1.

September Viability Report - Market Update

- 1.22 Since the September 2007 Drivers Jonas viability report there has been a significant downwards price correction in property values across the UK. Further there are clear signs that the broader economy and the property occupational market has weakened and continues to weaken significantly.
- 1.23 These declines have had a negative effect on the property investment market, resulting in reduced capital values and increased investment yields. Additionally, there has been a weakening in the occupier rental market with office space taking longer to let, increasing rental voids and tenants seeking enhanced incentives such as extended rental free periods.
- 1.24 This report does not provide an update on the September 2007 Viability report considering the development Oldlands Farm as a High Quality Business Park.
- 1.25 However, given the current weakened conditions in the property market and the slowing economic climate, it is fair to assume that development of a High Quality Business Park at Oldlands Farm has moved further away from being a financially viable proposal than it was twelve months ago.

Phase 1 viability

Property price correction

Weakening market conditions

Weaker market than 12 months ago

2. Assessment of Demand and Value

- 2.1 In assessing suitable forms of enabling development we have considered the UK commercial property and residential markets on both a micro and macro scale. A full commentary on the prevailing conditions can be found at Appendix 3.
- 2.2 As a direct result of the credit crunch, commercial and residential markets have been adversely affected by the lack of available bank debt or mortgage products. This has significantly reduced the volume of market transactions and weakened market values.
- 2.3 Forecasters agree that there will be continued decline in the UK property market as a result of the weakened housing market and the credit crunch. Many commentators are reporting that it could be in excess of 24 months before we see any marked growth/recovery in the UK economy.
- 2.4 In this context, this section of the report provides an assessment of suitable and uses on Oldlands Farm, and gives considers both the physical suitability and likely levels of market demand, and subsequent land value, for a series of uses.
- 2.5 In determining potential land value the availability of comparable market transactions is presently, very limited or simply does not exist. Those transactions that are occurring in the market are generally being made by distressed sellers.
- 2.6 It is noted that we have not prepared design/layouts as part of our consideration of the demand and value of the uses set out below. We have appraised and tested these uses assuming that a suitable design solution could be prepared.

Commercial and residential property

Transactions slowed

Continued decline of market

Limited market comparables

Residential

- 2.7 Oldlands Farm is located in a prominent position to the east of the A29, approximately 2km from the centre of Bognor Regis.
- 2.8 The location and topography of the site offers some potential for residential development. This potential is somewhat constrained by the presence of Southern Cross Industrial Estate to the south and the planned relief road to the north.
- 2.9 The sites semi rural location means that if developed for residential uses the site is most likely to be suited to two and three bed houses.
- 2.10 Reflecting this, our assessment of value assumes a medium density (40dph) development that utilises the comparable evidence gathered from local agents.
- 2.11 Local agents have reported a fall in values commensurate with those experienced within the wider UK residential market; sales rates have slowed, although transactions are still occurring on "reasonably" priced units.
- 2.12 Based on our assumptions, the potential residual value of fully serviced residential land (inclusive of providing affordable housing) could be in the region of £1.5m – £2.0m per hectare (£600k - £750k per acre).
- 2.13 More comprehensive market commentary is attached at Appendix 3.

Potential residential development

£1.5m – £2.0m per hectare

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- 2.14 It is noted that Barratt and Berkeley Homes are imminently due to start the delivery of the residential component of Policy Site 6 to the east and the west which will deliver circa 1,350 units over the coming 5-10 years.
- 2.15 In considering the delivery of residential land at Oldlands Farm the timescales for releasing land to the market, and the rate at which such land could be released will need to account for the above development pipeline.

Motor Trade

- 2.16 One of the key requirements for motor trade operators is a prominent road frontage. Oldlands Farm's western frontage, and traffic movements along the A29, mean that the western frontage of Oldlands Farm could be well suited, in physical presence terms for motor trade use.
- 2.17 Considering market demand, new car dealerships are not built on a speculative basis, as building design tends to be bespoke to individual manufacturers. Land take requirements for operators is generally between 0.4 and 0.6 hectares (1 and 1.5 acres).
- 2.18 The local market in Bognor Regis is unusual in as much as the main car manufacturers are spread widely over the towns and routes into the towns of Chichester, Bognor Regis and Littlehampton, as opposed to being consolidated in any single location, as is often the case.
- 2.19 Our investigations and the sentiment of agents has revealed that there are not any definitive requirements for motor trade units in Bognor Regis. It is noted that three car dealers are currently negotiating the acquisition of a site on the A27 near Littlehampton, to form an "autopark".
- 2.20 Within the hierarchy of competing local towns (Chichester and Littlehampton) Bognor Regis is not likely to be a preferred location for a motor trade dealership. This is particularly the case at present as like all retail operators, the motor trade industry is not immune to the on-going challenges posed by the current financial/economic climate.
- 2.21 For these reasons attracting motor trade operators to Oldlands Farm is likely to be challenging. Moreover, in the event that operators could be attracted to the site there is unlikely to be demand from more than two car dealerships, due to the size and geographical spread of the consumer local market.
- 2.22 Based on our discussions with agents, potential land values for motor trade use could be in the region of £1.4m per hectare (£560k per acre).

Petrol Filling Station

- 2.23 Oldlands Farm's prominent A29 frontage offers reasonable potential for development as a petrol filling station.
- 2.24 Aside from supermarket operators, the petrol filling station market has two tiers. There are fewer than ten main fuel retailing companies in the UK (excluding the supermarkets) who currently invest in new facilities. However, the trend over the last few years is for these companies to close low volume sites, largely as a result of competition from the supermarkets.
- 2.25 The other tier of operators are the smaller independent fuel companies who operate lower volume sites on tighter profit margins. These operators tend to be confined to specific geographical areas.
- 2.26 The financial viability of petrol filling stations on low volume sites is highly dependent on a sustainable population, commonly found only in urban

Road prominence

Design and build

Large area for car market

Not a preferred location

£1.4m per hectare

Competitive market

Two tiers of operators

SUPPLEMENTARY VIABILITY REPORT

areas. It is also dependent upon operators establishing a good convenience store (or ancillary business), either of their own brand (e.g. Esso's 'On the Run') or a partnership with a supermarket (for example Esso and Tesco Metro).

- 2.27 Oldlands Farm is not considered to be in a populated enough area to support a petrol filling station in its own right. Hence a petrol filling station is likely to be reliant upon passing traffic.
- 2.28 Any assessment of the viability of a petrol filling station at Oldlands Farm would be based upon estimated traffic flows on the adjacent roads. Such an assessment would also identify competing petrol stations in the locality (such as the Tesco on Shripney Road to the south).
- 2.29 We have not carried out the type of detailed demographic assessment that would be required to establish the need for a petrol filling station on the site.
- 2.30 However, in the event that an operator would find the site suitable, potential residual land values could be in the region of £1.25m per hectare (£500k per acre). The maximum land requirement from an operator is likely to constitute approximately 0.5 hectares (1 acre).

Reliance on passing traffic

£1.25m per hectare

Restaurant / Fast Food / Drive-through

- 2.31 The suitability of any site for restaurant / pub / drive through retail uses is dependent on having:
- n A road-side prominence and,
 - n A pre-requisite level of traffic flow or footfall
- 2.32 Oldlands Farm offers good frontage and reasonable traffic flows from the A29 and additionally from the planned new relief road.
- 2.33 Despite operators such as Burger King and Pizza Hut already being located on Shripney Road to the south, local agents confirm that there is likely to be reasonable demand for these type of uses.
- 2.34 Typically, such operators wish to be situated alongside similar retail operators, as well as leisure and hotels, and other retail uses, or within a scheme that has a draw or is a destination location.
- 2.35 In terms of land take, operators typically require between 0.1 and 0.3 hectares (0.3 to 0.75 acres), depending on whether there is benefit of an independent or shared car park.
- 2.36 Based on discussions with local agents potential residual land values for restaurant / drive-through uses could be in the region of £2.1m per hectare (£850k per acre).

Road side prominence, large footfall

£2.1m per hectare

Retail Warehouse (bulky goods)

- 2.37 Our assessment of market demand for retail warehousing has been based on retail bulky goods.
- 2.38 Oldlands Farm is located within close proximity to two established retail parks that have a significant element of bulky goods. The Arun Retail Park which opened in 1990 totals approximately 5,600 sq m (60,000 sq ft) and is anchored by occupiers such as Dreams, Halfords and Fitness First. Bognor Regis Retail Park opened in 1988 comprises 7,800 sqm (84,000 sqft) and is anchored by B & Q, Carpetright and Comet.

Bulky goods

Close proximity to other parks

SUPPLEMENTARY VIABILITY REPORT

- 2.39 There are some active requirements for smaller retail warehouse units in Bognor Regis. These are the Sussex Bed Centre (up to 650 sq m or 7,000 sq ft) and Vets 4 Pets (up to 185 sq m or 2,000 sq ft).
- 2.40 Oldlands Farm benefits from a significant position on the A29 which would offer retail warehouse operators a good road-side frontage.
- 2.41 In the present economic climate some bulky goods retail warehouse operators are planning store closures stating "poor trading" as being the main reason for this. Retailers appear to be reviewing costs with the aim of closing poor performing stores.
- 2.42 Some bulky goods operators report that they are continuing to open stores, but only in locations offering strong catchment areas or preferential trading environments e.g. a lack of direct competitors. Operators consider that tenant mix and the presence of a strong anchor are important drivers for ideal store locations/schemes. Typically DIY or fashion retailers are preferred anchors as they are big footfall generators.
- 2.43 Local agents suggest that, although there are some tenant requirements in Bognor Regis, the presence of the existing retail parks means that in the current economic environment it could be challenging to attract tenants/operators to any new retail warehousing scheme at Oldlands Farm.
- 2.44 In the current market, it would appear that delivering a retail warehouse scheme at Oldlands Farm would be challenging. Any scheme would need to attract a suitable anchor (likely to be a DIY retailer as we have restricted use at Oldlands Farm to bulky goods). There is currently a B & Q just to the south of Oldlands Farm. Although B & Q is the only branded DIY retailer in Bognor Regis, this does not guarantee that there will be interest from other DIY retailers (e.g. Wickes and Homebase), as these are well represented in Chichester and Littlehampton.
- 2.45 In the event that a suitable anchor could be attracted to Oldlands Farm, creating a critical mass for attracting other operators, Oldlands Farm could be delivered as a Retail Park. A retail scheme is likely to include a mixture of tenants in units of varying sizes, with average sizes of around 800 sq m, and potentially a large anchor in a unit up to 3,500 sq m.
- 2.46 Based on the unit mix considered above, rents could be in the region of £135-190 psm (£12.5 - 17.5 psf), with investment capitalisation yields in the region of 7%. Based on these assumptions potential land values could be in the region of £2.5m per hectare (£1m per acre).

Hotel

- 2.47 As with a number of the uses outlined above, the attractiveness of Oldlands Farm to hotel operators will be influenced by its prominent road frontage and the presence of competing operators within the locality.
- 2.48 It is likely, given that the site does not benefit from sea views or a town centre location, that any interest from hotel operators will be limited to the lower-end budget traveller operators similar to Travelodge or Premier Inn.
- 2.49 Bognor Regis town centre is well catered for by independent higher-end operators, whilst Butlins have recently invested circa £10m developing their 'Shoreline Hotel' (opened in 2005 located 2km to the south). Following the success of this hotel, Butlins is planning to develop a similar hotel, with construction planned to commence in 2009. St. Modwen also has a proposal for a new hotel within their Bognor Regis town centre regeneration scheme.

Requirements

Poor trading conditions

Challenging retail market

£2.5m per hectare

Budget hotel operators

Competition of local operators

- 2.50 Operators in the direct vicinity of Oldlands Farm include Premier Inn whose hotel is located approximately one mile to the north on the A29 in Shripney.
- 2.51 Our investigations of similar hotel operators suggested that a typical 80 bed budget hotel would require approximately 0.3 – 0.5 hectares (0.75 to 1.25 acres) depending on the operator and whether the site has the benefit of a shared car park. A budget hotel may also support a restaurant similar to the Premier Inn and Beefeater brands.
- 2.52 Our discussions with agents and hotel operators suggests that potential land value for hotel use could be in the region of £1.5 million per hectare (£600k per acre).

£1.5 million per hectare

Leisure

Leisure Park

- 2.53 Bognor Regis is an established coastal leisure destination and has a variety of existing leisure facilities. The Butlins Holiday Camp has a large indoor leisure park including a water park, funfair, bars, cafés and restaurants and is open to day visitors as well as holiday guests.
- 2.54 In the vicinity of Bognor Regis, Chichester Gate Leisure Park is located approximately 7 miles to the south east of Chichester. This scheme comprises approximately 13,000 sq m (140,000 sq ft) of leisure uses and includes a hotel (Premier Inn), multi-screen cinema (Cineworld), restaurants (McDonald's, KFC & Domino's) and a health club (Cannons).
- 2.55 The Chichester Gate Leisure Park has good public transport links and is located on the Chichester by-pass and benefits from free parking, making it convenient to the residents of Bognor Regis.
- 2.56 Within the Bognor Regis locale (including Chichester) there is already a reasonable existing leisure park offering. Based on the current economic climate it is unlikely that there will be sufficient consumer demand to support an entire alternative/new facility.

Fitness / Health Club

- 2.57 Oldlands Farm could be suitable for health and fitness operators, if delivered as part of a mixed use scheme i.e. including retail and other leisure uses. However, Fitness First already have a facility only 200m to the south of the site on Bognor Regis Retail Park.
- 2.58 In Bognor Regis town centre, there are four independent gym / health clubs, with the closest competing national operators being Cannons in Chichester and David Lloyd in Worthing.
- 2.59 In the event that an operator could be attracted to Oldlands Farm as part of a mixed use scheme, then typically land take requirements are in the region of 0.5 hectares (1 acre). Based on comparable evidence potential land values could be in the region of £850k per hectare (£350k per acre).

Health and fitness operators

£850k per hectare

Leisure General

- 2.60 In addition to those leisure facilities outlined above, Bognor Regis has the benefit of an existing independent Picturedrome Cinema in the town centre.
- 2.61 St Modwen's Regis Centre town centre regeneration, proposes a multi-screen cinema, bowling alley, retail floor space and a number restaurants.

B2 / B8 (General)

- 2.62 Oldlands Farm could be suitable for B2/B8 uses as it has good access to the highways network and is in an edge of town location. Agents have informed us that second hand B2/B8 stock (for which there is no significant demand) is currently available to let at around £59 psm (£5.50 psf), and that new build B2/B8 units of a good specification with 10% office space could command rents approaching £70 psm (£6.50 psf).
- 2.63 As a direct result of a lack of recent transactional evidence, yields on this type of property are, in the current market, difficult to judge. However our investigations of local agents suggests that yields have softened in the wake of the current financial climate and consequently are around 8%.
- 2.64 Commentary from local agents highlighted that speculative development of B2/B8 property in the area would not be an attractive proposition due to lack of demand and the recent changes in empty rates relief. Therefore, it is most likely that developers would require the security of a pre-let before considering building new stock of this type in this location.
- 2.65 The most recent letting in the area took place in May 2008: BTR Brakes acquired 223 sq m (2,100 sq ft) at the Regis Business Centre (Unit 6) on Durban Road at a rent of £56 psm (£5.21 psf).
- 2.66 Due to the lack of land sale transactional evidence we have run an indicative per hectare appraisal in order to determine a land value. Based on 40% site coverage and the rent and yield information highlighted above we are of the view that land values would be approximately £450k per hectare (£180k per acre).

Suitable B2/B8 use

Lack of transactional evidence

£450k per hectare

Self Storage

- 2.67 Our research indicates that the only purely self-storage facility (i.e. not provided by a removal firm) in Bognor Regis is operated by 'Self Storage Space', whose building is located on the Durban Road Industrial Estate.
- 2.68 There are however operators based in Chichester (Sentry Self Storage & 1st Chichester Storage), Littlehampton (Arun Self Storage) and Selsey (Additional Self Storage); these facilities are all within 7.5 miles of Bognor Regis town centre. Within a similar radius there are also a number of removals companies offering storage facilities (for example, J. C Carriers Ltd in Bognor). Importantly, there are currently no major brand self storage operators (i.e. Big Yellow, Access etc.) based in Bognor Regis.
- 2.69 Discussions with local agents have led us to believe that the lack of a major brand operator in Bognor Regis is due to its moderate population. However, local agents sentiment would not rule out the possibility that one of the major operators might consider Oldlands Farm for a new facility.
- 2.70 Despite the lack of presence from the established self storage brands, Bognor Regis' small population and its lack of obvious affluence (according to its ACORN classification, Bognor Regis is characterised by families on low incomes) - we are of the opinion (subject to planning and a reduction in the current market volatility) that a major brand operator may be prepared to pay around £1 million per hectare (£400k per acre) for up to 0.6 hectares (1.5 acres) at Oldlands Farm.
- 2.71 Like a number of the uses outlined above, this would be reliant on a prominent road-side location.

No major brands

£1 million per hectare

Trade Counter

- 2.72 Our investigations of local agents suggests that there is potential demand for new trade counter units of between 185 and 232 sqm (2,000 - 2,500 sq ft) or multiples thereof at Oldlands Farm. This assumes that the frontages of any new stock would be highly visible from the A29. However, as with the more traditional B2/B8 use, it is highly likely that developers will require the comfort of a pre-let before embarking on a development of this nature.
- 2.73 The Shripney Trade Park (Shripney Road) contains a number of trade counter units which have been completed and let over the last two years. Occupiers include: Topps Tiles, Bathstore and Brandon Tool Hire. Other trade counter operators in the immediate vicinity include: PTS Plumbing Trade Supplies (Southern Cross Trading Estate), Build Centre (Southern Cross Trading Estate), and Travis Perkins.
- 2.74 We are informed that rents for such units are at around £97 psm (£9 psf), with investment yields at approximately 8%. This suggests that trade counter operators may attract a rental premium above that of general B2/B8 accommodation in Bognor.
- 2.75 On this basis land values for trade counter use could be in the region of £500k per hectare (£200k per acre).

Summary

- 2.76 There are a variety of uses that could be delivered at Oldlands Farm. The analysis above demonstrates that potentially, excluding a leisure park, the majority of uses above could be delivered at Oldlands Farm.
- 2.77 However, the market demand for these uses will be constrained by:
- n For certain uses there will only ever be a finite market demand in Bognor Regis in the short to medium term (5-15years) i.e. these uses will only ever require a certain quantum of floor space and hence development land;
 - n Certain uses will compete against each other for the western A29 frontage, as good frontage is fundamental to their business models; and
 - n There will only be market demand for certain uses if there are other complementary uses on the site and there is a "critical mass" of development and/or complementary occupiers within any scheme
 - n Uses affected by the above constraints are:
 - n **Health and Fitness**
 - n **Self Storage**
 - n **Hotel**
 - n **Motor Trade**
 - n **Fast food**
 - n **Retail Warehousing (bulky goods)**
 - n **Trade Counter**
 - n For other uses annual take up will be restrictively low, constraining the release/development land over time. These uses are:
 - n **Industrial (B2/B8).** Weak occupier demand resulting in low levels of annual demand for floor space; and
 - n **Residential.** Traditionally (over the past decade) demand for residential land has been constantly at historically high

levels, as demand has been high fuelled by historically cheap and available debt whilst supply has been constrained by the planning system and the land banking policies of housebuilders. However, given existing weakened market conditions, in the short term (0-2 years), demand for residential land is likely to remain weak. Weakened market conditions will be compounded by the residential development pipeline associated with Policy Site 6 (1,350 units with planning permission)

- 2.78 Based on the above analysis this report considers the financial viability of four development options. These options are:

- B2/B8 led scheme
- Mixed use scheme (predominantly leisure and retail)
- Residentially led scheme
- Retail led (predominantly retail warehousing – bulky goods)

- 2.79 A rationale of why we have chosen these options, and scheme descriptions, are outlined in Section 3 below.

Four development options

3. Enabling Scenarios

- 3.1 Section 2 has reviewed the suitability, market demand and potential value of alternative enabling land uses at Oldlands Farm.
- 3.2 This section considers the financial viability of four development scenarios at Oldlands Farm. The purpose for assessing these scenarios is:
- n To test the extent to which they are able to “enable” the site i.e. are the values generated by these options, over time, sufficient to fund the infrastructure required to service the site, leaving enough land value to incentivise the landowner
 - n If there is sufficient value created to service the site then what quantum of land is required, and subsequently what quantum of land remains for the development of a High Quality Business Park.
- 3.3 Please note that our assessment of value represents an analytical illustration of various development scenarios, the values they could produce, and hence the ability of alternative uses to enable a High Quality Business Park at Oldlands Farm.
- 3.4 For the purposes of this analysis we have used the infrastructure costs prepared by Christopher Smith Associates (as part of the September 2007 viability study). At the time these costs, as set out in Table 1 below, totalled circa £6.5m.

Infrastructure costs

Table 1 Indicative infrastructure costs - September 2007 (CSA Associates).		
ITEM	Cost £	Timing of spend (years from grant of planning consent / start on site)
Access and Spine Road	1,436,000	Years 0-2
Cycle ways	135,000	Years 0-2
Incoming services	822,000	Years 0-2
Surface water attenuation	882,000	Years 0-2
Dewatering	59,000	Years 0-2
Off site highways contributions	500,000	Years 0-2
Art	59,000	Years 0-2
Soft landscaping & fencing	719,000	50% in first 2 years balance phased on development period
S106 package (Public Transport and Sustainable Travel Contributions)	250,000	Phased over first 5 years
Cut and fill operations	1,601,000	Phased over development period
TOTAL	6,463,000	

NOTES : The costs above are those required to deliver serviced plots – ready for development

- 3.5 It is noted that there may be an element of variation for the infrastructure costs associated with delivering the various scenarios considered below, for example, the landscaping costs associated with the B2/B8 led scenario are likely to be lower than those for a residential scenario.
- 3.6 Regardless of these variations, all the costs listed above (with the exception of landscaping), are a requisite for all development scenarios. Hence, in our analysis we have made allowances in the adopted infrastructure costs to reflect this.

- 3.7 To account for build cost inflation over the past 13 months (since our September 2007 study) we have inflated the infrastructure costs by 6.7% based on BCIS cost inflation indices. Hence, within our appraisals we have adopted an infrastructure cost range of between **£6m and £7m**.
- 3.8 In determining land use scenarios we have used HGP Architects' drawing 05.058.25. This provides an illustration of the potential net developable area/development parcels within the site, once allowance has been made for landscaping and infrastructure. Based on this plan the site has a total area of 8.38 hectares (20.7 acres) and a net developable area of approximately 6.5 hectares (16 acres).
- 3.9 It is noted that for the various development scenarios considered, alternative site configurations may be required in order to make a scheme work in physical, design and master planning terms.
- 3.10 In the absence of a formal master planning exercise we have assumed that all development scenarios can be accommodated within the developable areas listed in 3.7 above (regardless of site layout).

Financial Assessment Methodology

- 3.11 In order to assess the financial viability of the below scenarios we have undertaken a cash flow analysis with the aim of determining the quantum of development that will be required over time, in order to:
- 1 Recoup the cost of the upfront infrastructure;
 - 2 provide a commercial return to the developer; and
 - 3 deliver a target net land value to the land owner of say £617k per ha (£250k per acre).

Development Scenarios

- 3.12 Based on the market assessment in section 2 and the constraints identified, the scenarios listed below represent our view of the realistic combinations of land uses that could be deliverable at Oldlands Farm.
- 3.13 It is noted that whilst the permutations of land uses are potentially numerous, we have tried to assess four schemes that represent what could potentially be delivered in the market over time, subject to planning.
- 3.14 Table 2 below provides a summary of the residual land values for the uses considered (based on the analysis/commentary set out in Section 2).
- 3.15 It should be noted that these are indicative values and assume that the site is fully serviced with infrastructure and an appropriate planning consent for the proposed use is in place.
- 3.16 The four enabling scenarios we have considered are:
- ℳ Scenario 1 - B2/B8 led scheme
 - ℳ Scenario 2 - Mixed use scheme (predominantly leisure and retail)
 - ℳ Scenario 3 - Residential-led Scheme
 - ℳ Scenario 4 - Retail led (predominantly retail warehousing)

Net developable area 6.5
Hectares

Realistic land uses

Table 2 Land Value Summary		
USE	VALUE (per Ha)	Annual Take Up / Total requirement
B2 / B8	£450k	0.4 hectares per annum
Trade Counter	£500k	0.25 ha per 1 – 2 operators (max 5 operators)
Health / Fitness	£850k	0.5 ha single operator
Self Storage	£1.0m	Up to 0.6 ha single operator
Petrol Filling Station	£1.25m	0.5 ha single operator
Motor Trade	£1.4m	Up to 0.6 per operator (max 2 operators)
Hotel	£1.5m	Up to 0.5 ha single operator
Residential	£1.7m	1.2 hectares per annum
Fast Food	£2.1m	0.25 ha per operator (max 4 operators)
Retail Warehouse	£2.5m	2 ha (max 3 to 5 operators)

Scenario 1 B2 / B8 led Scheme

- 3.17 This scenario incorporates predominantly B2/B8 uses, complimented by other uses that could realistically be included as part of a B2/B8 led proposal. These complementary uses are motor trade (car showroom - two operators) and self storage. The introduction of these uses aims to make best use of the A29 frontage and maximise/add value.

B2/B8 Led scheme

- 3.18 Table 4.3 below summarises this scenario.

Table 4.3 Scenario 1 B2 / B8 led Scheme – Enabling Development		
		NOTES – All areas GEA
Total Infrastructure Budget	£6.0m	Reduced infrastructure budget
Land Use / Land Take (per Ha)	Value	
B2 / B8 - 5.0ha	£2.3m	25,000 sq m (270,000 sq ft) Take up 2010 – 2022 (13 years)
Self storage - 0.5ha	£0.4m	1 operator – released 2010
Car showroom - 1.0ha	£1.4m	2 operators – released over 2 years from 2010
Total Revenue	£4.1m	
Total Costs	£6.3m	Infrastructure costs + project management fees
Net Cash Flow	£-2.2m	
NET PRESENT VALUE	£-2.6m	Negative land value
Total Land take of Enabling Uses	6.5 ha	
Residual Value (£ / Ha)	n/a	
Residue for Business Park use	0 ha	No residual land for Business Park

- 3.19 Infrastructure costs have been reduced to reflect the lower landscaping costs associated with a B2/B8 led scheme.
- 3.20 Despite the enhanced value generated by car showroom and self storage uses, this scenario produces a negative land value. This is principally due to low B2/B8 land values and the low level of annual take up.
- 3.21 This scenario produces a negative land value of **-£2.6m** and is not financially viable i.e. this combination of land uses is unable to fund the infrastructure required to service the site.

Negative land value

3.22 Table 3 above illustrates that even if there was a market requirement for the entire 5 ha of the B2/B8 space i.e. a developer could pre-let a scheme on the whole site prior to commencing development, and hence realise a sale of the site immediately after construction, this option would still produce a negative value of **-£1.5m** i.e. scheme revenue is only £4.1m whilst infrastructure costs are £6.0m.

3.23 This scenario is unviable and hence unable to enable Oldlands Farm for the delivery of a High Quality Business Park.

Scenario 2 Mixed-use Scheme

3.24 This scenario aims to deliver a mixture of leisure and retail uses whilst taking maximum advantage of the sites A29 frontage. Key to the successful delivery of this option will be generating a critical mass of occupiers that will attract further operators to the site.

Mixed use scheme

3.25 As there is likely to be a finite demand for the retail and leisure uses in this option not all the land within the site can be utilised by retail and leisure uses. Hence the balance of the site has been assessed on the basis that it is developed for residential use (which is likely to be accommodated towards the east/rear of the site).

3.26 This scenario is likely to be challenging in conforming with urban design principles because the hybrid mix of uses proposed will not create the optimal/acceptable environment for residential accommodation.

3.27 This scenario produces a land value of **£644k** or the equivalent of **£99k** per hectare. Although this scenario produces a positive land value, it is considerably short of a target land value of £617k per hectare.

Less than target value

3.28 Notwithstanding the above, this scenario utilises the entire developable area of the site. So whilst the site is enabled with infrastructure, there is no remaining land for the delivery of a High Quality Business Park.

3.29 Table 4 below summarises this scenario.

Table 4.4 Scenario 2 Mixed-use Scheme – Enabling Development		
		NOTES
Total Infrastructure Budget	£7m	Reduced infrastructure
Land Use / Land Take (per Ha)	Value	
Trade Counter - 0.8 ha	£405k	5 operators - released over 4 years from 2010
Health / Fitness - 0.4 ha	£344k	1 operator – released 2012
Self Storage - 0.6 ha	£607k	1 operator – released 2010
Hotel - 0.4 ha	£607k	1 operator – released 2012
Petrol Filling Station - 0.5 ha	£633k	1 operator – released 2010
Fast Food - 1.0 ha	£2.13m	4 operators – released over 2 years from 2011
Residential - 2.8 ha	£4.65m	108 units (30% affordable) - released over 2 years from 2011
Total Revenue	£9.4m	
Total Costs	£7.35m	Infrastructure costs + project management fees
Net Cash Flow	£2.01m	
NET PRESENT VALUE	£644k	
Total Land take of Enabling Uses	6.5 ha	
Residual Value (£ / Ha)	£99k	Below target
Residue for Business Park use	0 ha	No residual land for Business Park

Scenario 3 Residential-led Scheme

- 3.30 This scenario delivers residential development over the entire site. Development of the site for residential use would require a suitable design approach/solution to create an acceptable residential environment and suitable amenity for residents of any proposed scheme. This is likely to include appropriate landscaping measures etc, in order to mitigate the negative impact of the adjoining Southern Cross Industrial Estate, the busy A29 and the planned relief road.
- 3.31 In assessing a residentially led scheme at Oldlands Farm we have taken into account the planned development pipeline associated with the delivery of the Policy Site 6 i.e. the 1350 as part of the existing local plan allocations.
- 3.32 This scenario produces a land value of **£1.47m** or the equivalent of **£230k** per hectare, which is short of the target land value of £620k per acre.
- 3.33 Notwithstanding the above, this scenario utilises the entire developable area of the site. So whilst the site is enabled with infrastructure, there is no remaining land for the delivery of a High Quality Business Park.

Less than target value

SUPPLEMENTARY VIABILITY REPORT

3.34 Table 5 below summarises this scenario.

Table 5 Scenario 3 Residential-led Scheme – Enabling Development		
		NOTES
Total Infrastructure Budget	£7m	
Land Use / Land Take (per Ha)	Value	
Residential - 6.5 ha	£11.01m	320 units (30% affordable) released over 5 years from 2010
Total Revenue	£11.01m	
Total Costs	£7.35m	Infrastructure costs + project management fees
Net Cash Flow	£3.66m	
NET PRESENT VALUE	£1.47m	
Total Land take of Enabling Uses	6.5 ha	
Residual Value (£ / Ha)	£230k	Below target
Residue for Business Park use	0 ha	No residual land for Business Park

Scenario 4 Retail-led Scheme

3.35 This scenario incorporates predominantly retail warehousing (bulky goods), with Motor Trade (car showroom) and a Petrol Filling Station on the A29 frontage. Due to the finite demand for these retail uses, the remainder of the site has been assessed for residential uses.

3.36 The land take for retail warehousing (2ha) is comparable with the other retail parks in Bognor Regis, and would aim to deliver circa 6,000 sq m GEA of floor space.

3.37 Table 6 below summarises this scenario.

Table 6 Scenario 4 Retail-led Scheme – Enabling Development		
		NOTES
Total Infrastructure Budget	£7m	
Land Use / Land Take (per Ha)	Value	
Petrol Filling Station - 0.5 ha	£506k	1 operator – released 2010
Car Showroom – 0.6 ha	£850k	2 operators – released over 2 years from 2010
Fast Food - 0.6 ha	£1.28m	3 operators – released over 3 years from 2012
Retail Warehouse (bulky goods) - 2.0 ha	£5.06m	3 to 5 operators – released over 5 years from 2010
Residential – 2.8ha	£ 4.8m	112 units (30% affordable released over 2 years from 2010)
Total Revenue	£12.5m	
Total Costs	£7.35m	Infrastructure costs + project management fees
Net Cash Flow	£5.16m	
NET PRESENT VALUE	£2.94m	
Total Land take of Enabling Uses	6.5 ha	
Residual Value (£ / Ha)	£453k	Above target value
Residue for Business Park use	0 ha	Residual land for Business Park

SUPPLEMENTARY VIABILITY REPORT

- 3.38 Cash flow analysis of this scenario produces a net residual land value of **£2.94m** or **£453k** per developable Ha.
- 3.39 Notwithstanding the above, this scenario utilises the entire developable area of the site. So whilst the site is enabled with infrastructure, there is no remaining land for the delivery of a High Quality Business Park.

4. Conclusions

- 4.1 This report has undertaken an independent assessment of the market demand and value for alternative land uses at Oldlands Farm. Our assessment has revealed that there could be demand (albeit limited) for employment, leisure, retail and residential uses at Oldlands Farm.
- 4.2 On this basis, our report has considered four development scenarios and tested the values generated by these scenarios over time, plus their ability to fund/deliver the required infrastructure to service/enable development at Oldlands Farm. The scenarios considered, and the key findings of these four analyses are summarised as follows:
- n **Scenario 1.** A B2/B8 led scheme. Employment (B2/B8) uses are typified by low residual land values, limited occupier demand, and slow levels of annual take up. The result of a cash flow analysis for a B2/B8 scheme is a negative land value and hence this option is unable to enable development of a High Quality Business Park at Oldlands Farm.
 - n **Scenario 2.** Mixed Use scheme (predominantly retail and leisure). Demand for these uses will be dependent on creating a sense of place and establishing a critical mass of occupiers to attract operators to any proposed scheme. Demand for these uses is generally finite, as local demographics and the presence of competing operators will mean that there will be a threshold of demand that the market can bear. The results of a cash flow analysis for this scenario is a nominal land value. However, the entire site is required for development. Hence there is no land remaining for development for a High Quality Business Park.
 - n **Scenario 3.** Residentially led scheme. Demand for, and the value of, residential development land has declined significantly over past 12 months. Further, there is a pipeline of residential development to the east and west of Oldlands Farm, for 1350 units. The results of a cash flow analysis for this scenario is a nominal land value. However, the entire site is required for development. Hence there is no land remaining for development for a High Quality Business Park.
 - n **Scenario 4.** Retail led scheme (predominantly retail warehousing - bulky goods with residential). Despite the presence of retail parks in Bognor Regis and Chichester there is some evidence of limited market demand from occupiers in Bognor Regis. The result of a cash flow analysis for this scenario produces a nominal land value - but the entire site is required for development. Hence there is no land remaining for development for a High Quality Business Park.
- 4.3 The ongoing issues in the global banking system and the emerging contraction in the UK economy has meant that the UK property market has declined/weakened considerably over the past 12 months. As a result market demand and values have fallen. This has considerably undermined financial viability and hence limited the enabling ability of alternative uses at Oldlands Farm.
- 4.4 Additionally, due to cost inflation experienced over the past 12 months, the cost of enabling infrastructure at Oldlands Farm has risen. This acts to undermine financial viability further.
- 4.5 The assessment contained within this report has demonstrated that alternative uses cannot enable the development of a High Quality Business Park at Oldlands Farm. Further, even devoting the entire developable land within Phase 1 of Oldlands Farm to alternative uses does not generate a

Alternative land use values

Ongoing global financial crisis

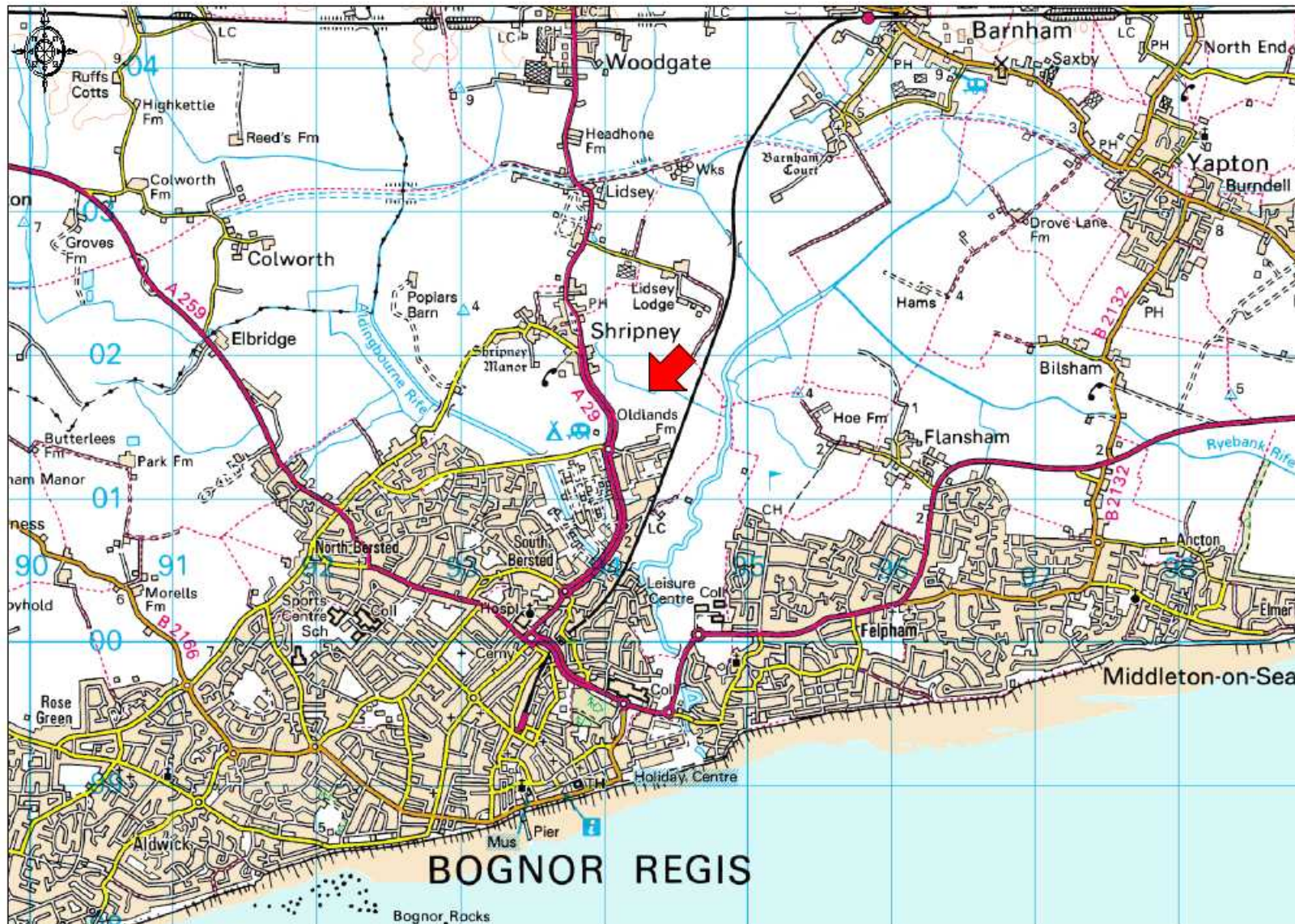
positive land value significant enough for the site to be brought forward for development.

- 4.6 The analysis contained within Drivers Jonas, September 2007 Viability Report demonstrated that a foodstore at Oldlands Farm utilises circa 2.6 hectares of land. This allows for the remainder of the site (3.7 hectares of fully serviced land) to be delivered for development as a High Quality Business Park.
- 4.7 A foodstore is capable of enabling Oldlands Farm and fund the necessary infrastructure needed to service the entire site and facilitate the delivery a High Quality Business Park. This report demonstrates that in terms of land area take, a foodstore is the most efficient form of enabling development, as in order to generate sufficient value to service the entire site, only part of the site is required for development.

5. General

- 5.1 The figures contained within this report provide an indication of potential development value to Asda for land at Oldlands Farm in order to assist with the strategic advice provided. The figures are based upon the assumptions expressly noted within this report.
- 5.2 Drivers Jonas LLP figures are not formal valuations and under no circumstances should be relied upon as such.
- 5.3 The figures are specifically excluded from the provisions of the RICS Appraisal and Valuation Standards (The Red Book). They should not therefore be construed as a formal valuation for accounts or lending purposes, rather the figures represent our opinion on the range of disposal receipts that may be generated, on the basis of our planning and market analysis, and information provided as at September 2008.
- 5.4 In preparing these figures, where stated, it is assumed that no contaminative substances are present on the site or neighboring sites so as to affect the same. Further detailed investigation of the site would be required to determine the extent of such costs and their effects on residual land values.
- 5.5 The figures provided are for the benefit of Asda and should not be relied upon by any third party. Consequently, no responsibility is accepted to any third party.
- 5.6 Where stated we have relied upon information provided by third parties, so advise that the figures are totally dependent on the accuracy of the information supplied and / or assumptions made. Should these measurements / costs be inaccurate or incomplete, the accuracy of the results may be affected.
- 5.7 Our prior consent in writing will be required if you wish to reproduce the report or refer to it in any published document.
- 5.8 Our file may be subject to confidential monitoring in order to ensure compliance with the RICS conduct and disciplinary regulations.

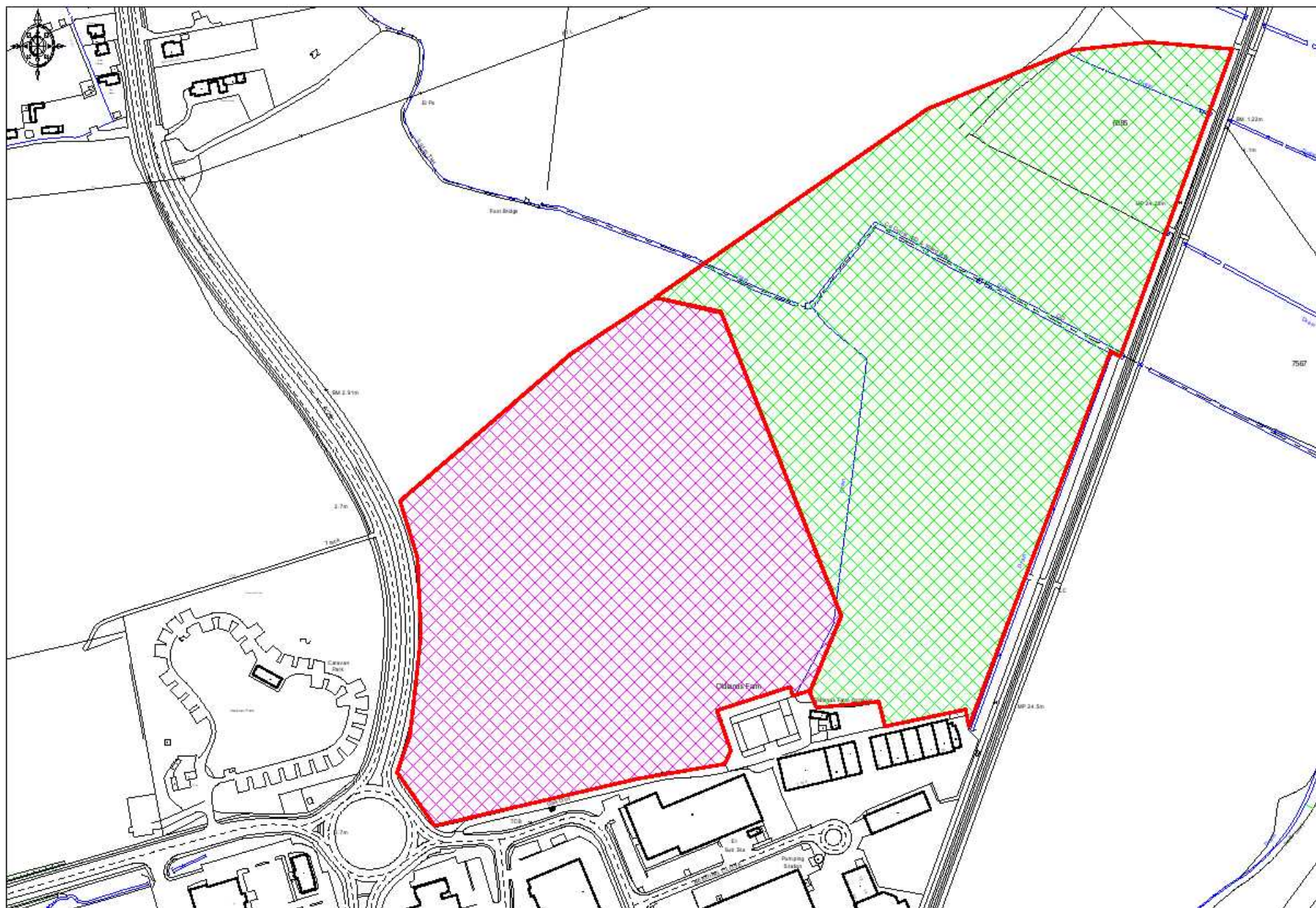
Location Plan, Oldlands Farm, Bognor

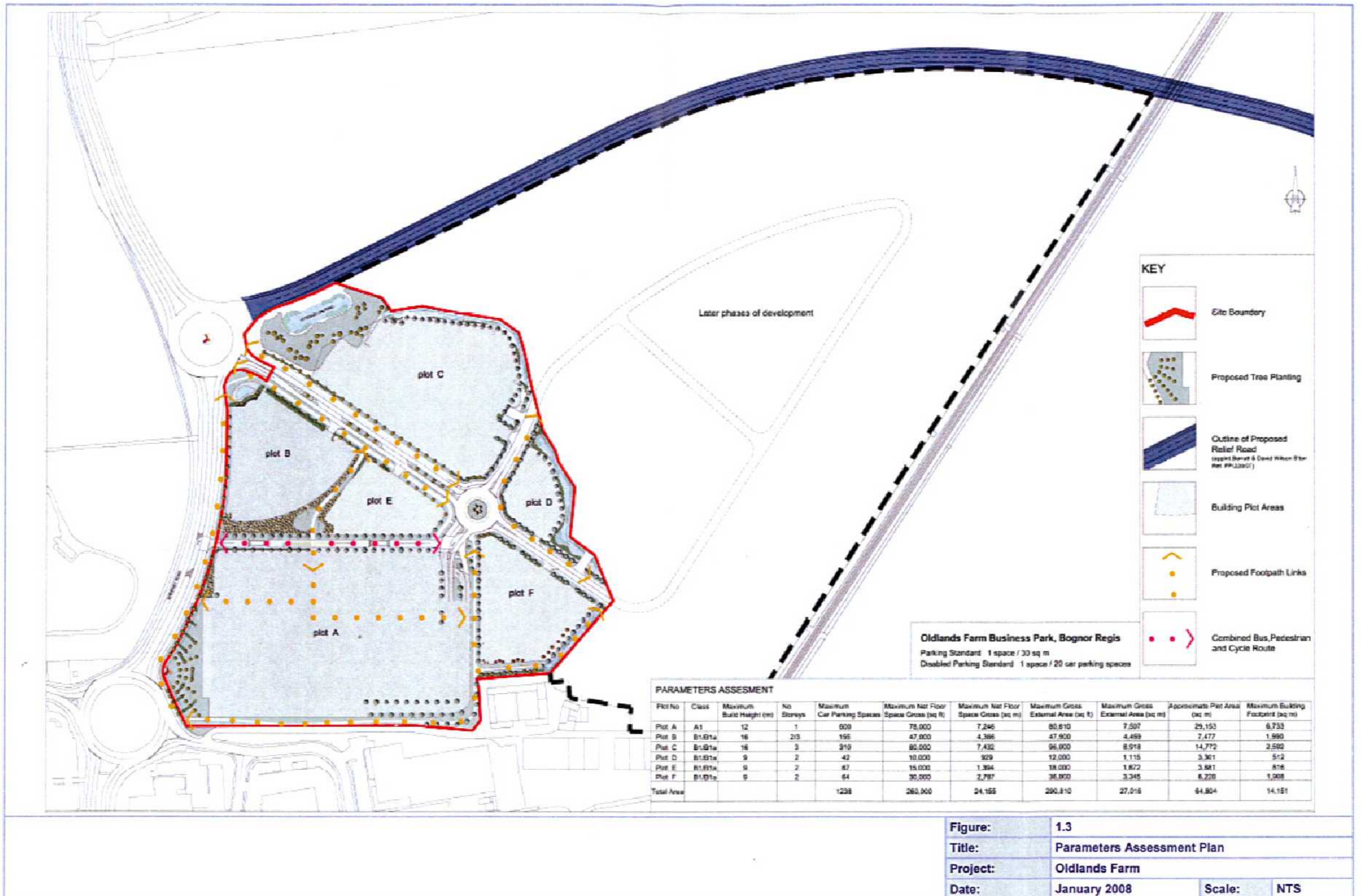


Ordnance Survey

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October 2008. Appendix III. Market Commentary

Market Overview

1. The Economy

- 1.1 The UK is now being unequivocally affected by the credit crisis. The level of activity in the UK property investment market has been at a relatively low level since the middle of 2007 because of the reduced availability of credit and, where credit was available, the increased cost of borrowing. Investor caution was increased by uncertainties emerging in some of the key occupier markets. This low level of activity has continued, despite the significant funds apparently assembled - and available to be spent - by so-called vulture funds, because so far the 'credit crunch' has resulted in very few distressed sales.
- 1.2 The shocks in the world financial markets of the past few months have continued with virtually all markets and sectors being adversely affected. What started as a largely property related issue has more recently led to falls in share prices around the globe and deep mistrust amongst the banks. Credit is generally even less available than previously, even for established customers.
- 1.3 According to the ONS, UK real GDP growth fell to 0.3% in Q1 and to 0.0% in Q2 (the weakest figure in seven years), with all indicators pointing to poor growth over the next year. There is even the likelihood of a technical recession (as defined by two quarters of falling output) occurring in the second half of 2008.
- 1.4 Rising food and energy prices sent August CPI inflation to 4.7%; this is the first time it has risen above four percent since 1992. The concerns of the Bank of England and the global central banks was highlighted by their recent decision to make a coordinated cut in interest rates, with the aim of adding some confidence to

The Outlook

- 1.5 The continuing turmoil in the financial markets, including the effective nationalisation of many of the British banks (potentially to be followed by similar action in the rest of Europe), should have the effect of finally relieving the markets of some of the lack of confidence. However, most commentators seem to agree that we are now entering a period of much diminished economic activity. Indeed, it is fully expected that the economic performance of Q4 will continue the trend started in Q3 of negative growth in the UK economy, thereby confirming the status of a recession and this too will have an adverse impact on the UK property sector. Forecasts suggest that this period of low growth will last a minimum of two years before economic performance gradually revives from 2010 onwards.
- 1.6 For the time being however huge uncertainties exist in all financial markets and it is still far too early to assess their impact on the UK occupational and investment markets, and therefore on values. Although they are few in number, most of the investment transactions taking place currently, are by forced sellers to buyers who consider they are acquiring at a substantial discount to long term value indicators. There are very few transactions that can provide a valuer with up to date comparable evidence and it is impossible to predict the depth of demand there would be for any particular asset if it were to be marketed. There is therefore much greater than usual uncertainty in the valuations reported.

October 2008. Appendix III. Market Commentary

2. The Commercial Property Market

Office Sector

- 2.1 The office sector during Q2 has not managed to hold on to its position as the best performing (or more accurately least-worst performing) sector. IPD Monthly Index results for 12-month total returns to the end of August recorded a fall of -17.9%; this is similar to the -17.4% for retail but is considerably worse than the -15.5% recorded for industrial. In August itself, a -1.3% fall in office total returns was recorded.
- 2.2 This negative performance is driven by the continuing outward movement of yields. August initial yields were 5.64%; they now stand at a level last seen at the end of 2005. Rental growth grew by 0.5% in August, having seen a small decline in July. At 0.5% for the month it is now considerably lower than its peak of 1.1% recorded in December 2006.
- 2.3 The outlook for the Office sector continues to look gloomy. The main driver of Office leasing demand, comes from the financial and business services (FBS) companies, who are shedding headcount and withdrawing former expansion plans in the face of the difficult financial environment and weakening UK economy.

Industrial Sector

- 2.4 Industrial had been the best performing sector over each month until July when the returns dropped drastically from -0.7% to -1.4%, with total returns for August having improved marginally to -1.3%. However, it remains the best performing sector over a three month period at -3.3% compared with -3.9% for retail and -4.1% for offices.
- 2.5 Initial yields for the sector are currently 6.49%, up from a cyclical low of 5.30% in August 2007, and are now back at the levels of mid-2005.
- 2.6 Despite a weakened market there are still a number of deals going through; although, given the lessening pressure on buyers to complete transactions quickly, the length of time property is marketed and the difference between the asking and deal price have certainly increased and may increase further.
- 2.7 The system of Empty Property Rates Relief came to a controversial end on the 1st April this year. Although it is still too early to see the consequences, we don't expect that it will have a hugely detrimental effect on either values or rental growth. Providing empty rates are accounted for as a cost at the outset, it should not prove a disincentive to investment in industrial property.

Retail Sector

- 2.8 The retail sector has fared the best on the IPD Monthly Index despite being the second worst performer in the 12 month figures (-17.4%, compared to -17.9% for offices and -15.5% for industrial). This decline has been driven by a combination of falling values, low income return and weak rental growth.

October 2008. Appendix III. Market Commentary

3. The Residential Market

- 3.1 The number of new mortgages approved for new house purchases has recently hit a record low. The Bank of England reported that mortgage approvals declined even further in August 2008, falling from 22,239 in July to the lowest figure (21,086) since records began in September 1997.
- 3.2 UK house prices have also started to fall dramatically; the Halifax house price index indicates house prices fell by 5.5% in Q2: the largest quarterly decline on record. According to the Nationwide, they have now fallen for an 11th consecutive month, dropping by 1.7% in September. The lender recorded a 12.4% annual drop in prices, pushing the cost of the average UK home down to £161,797, more than £20,000 less than a year ago.
- 3.3 Prices are expected to fall 15% this year, and to continue falling in 2009. Average house prices may fall as much as 40% in real prices from their 2007 peak. Buy-to-let investors will face lower capital values and returns will average minus 9% a year for the next three years, whilst land values may halve.

Residential Land Values

- 3.4 Land values, which are geared to end sale prices, have fallen even more dramatically, and many deals that were in the process of being agreed have fallen apart or been re-negotiated. There is anecdotal evidence of price falls of between 25 – 35% since the peak in 2007. With financing conditions remaining tight, and the value of house builders' land banks falling, house builders are not in the market for additional land, with only the highest quality opportunities still attracting interest.
- 3.5 The only purchasing model we are aware of in the market is for speculators to make bids based on the assumption that end values will recover to about 90% of the peak levels reached in 2007 in about twelve to eighteen months, with a substantial allowance for holding costs and risk. Bids that we have seen recently for land marketed widely to residential developers has demonstrated the severity of this dramatic deterioration in value, particularly over the last three months.