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Supplementary Agenda 1

Dear Councillor

ORDINARY COUNCIL - WEDNESDAY, 2ND NOVEMBER, 2022

I am now able to enclose, for consideration on Wednesday, 2nd November, 2022 meeting of the Ordinary Council, the following reports that were unavailable when the agenda was printed.

Agenda No	Item
8.	**Baytree Shopping Centre Regeneration Proposal** (Pages 3 - 30)
9.	**Childerditch Industrial Estate Development Proposal** (Pages 31 - 56)

Yours sincerely

Chief Executive

Encs

21/10/22

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Committee(s): Ordinary Council	**Date:** 2 November 2022
Subject: Baytree Shopping Centre Regeneration Proposal	**Wards Affected:** Brentwood South
Report of: Phoebe Barnes – Director of Assets & Investments	
Report Author/s: Name: Phoebe Barnes – Director of Assets & Investments E-mail: phoebe.barnes@brentwood.gov.uk Name: Richard Wilson – Managing Director of Seven Arches Investment's Limited	**For Decision**

Summary

The Baytree Shopping Centre is a 135,470 sq ft multi-let shopping centre with 36 tenancies producing £1,157,327 gross rental income p.a. and a guaranteed initial net operating income of £675,000 p.a. until February 2023. This asset was acquired in March 2021 for £10.8m plus acquisition costs. As part of this deal there was a net operating income guarantee of £675,000 for two years after which the net operating income will drop to £402,437.

Baytree is a strategic regeneration opportunity that will enable major re-shaping of Brentwood's town centre. This will include an enhanced mix of uses including, leisure, residential, food and retail combined with potential community uses which will create a relevant and vibrant future heart for the town.

By undertaking a proactive approach to re-generation within Brentwood the council is uniquely placed to prevent the further decline of in town services and help shape the future of the town centre.

This report sets out proposals for the Council to re-develop the first phase of the Baytree Shopping Centre. The proposed redevelopment is to create a Cinema with leisure and additional retail units, residential units and new open air public space.

The total costs of the proposed re-development are forecast to be £23.340m (excluding financing costs) with a development time period of 18 months once the contractor has been appointed. This cost is split £21.898m on capital forecasts and £1.442m on revenue costs. The asset is currently leased to Seven Arches Investments Limited (SAIL) and as part of this arrangement have developed the regeneration plan. It is anticipated that Seven Arches Investments Limited will select the development partner during planning permission process and manage the re-development.

There are currently 36 tenants, generating a gross rental income of £1,157,327 per annum. This development would increase this to 30 tenants and a gross rental income of £1,780,000 per annum. Producing an additional £447,406 net revenue to the council per annum.

Officers and SAIL have completed an intensive feasibility study due diligence on the proposal and considered appropriate risk management implications. A detailed feasibility study on the development is set out in Appendix A (exempt).

Recommendation(s)

R1. That a total capital budget of £21.898m is approved for the intended redevelopment at The Baytree Shopping Centre as set out in the report. That this budget is profiled within the Council's Capital and Investment Strategy as follows:

2022/23 £987,730
2023/24 £12,451,880
2024/25 £8,484,483

R2. That delegated authority is given to the Director of Assets & Investments in consultation with the Section 151 Officer, Monitoring Officer and Leader to take all steps necessary, including entering into any legal agreements required, to complete the development proposed at Baytree Shopping Centre, Brentwood.

Main Report

Introduction and Background

1. The Council acquired two properties within Brentwood, (The Baytree Shopping Centre and Academy Place), from Threadneedle UK Property Authorised Investment Fund c/o Columbia Threadneedle (CT), for the combined price of £25,750,000 in March 2021.

2. The Baytree Shopping Centre was not on the open market for sale and a direct approach resulted in Threadneedle implying that they would only sell both assets together in one deal.

3. The amount attributed to the Baytree shopping Centre was £10.8m with the remainder being Academy Place.

4. Academy place is strategically located off London Road within minutes of the M25 and is a multi-let 46,197 sq ft office building with 6 tenants producing £995,571 gross rental income p.a. and net operating income of £995,571 p.a. This property was acquired to provide revenue support to the re-development of

the Baytree Shopping Centre during the period of development where it is anticipated that the remaining tenants would receive rent free periods to offset disruption from the building works.

5. The Baytree Shopping Centre is located in the heart of Brentwood and is a 135,470 sq ft multi-let shopping centre with 36 tenancies producing £1,157,327 gross rental income p.a. and initial net operating income of £675,000 p.a.

6. Upon acquisition the Baytree Shopping Centre had over 30% vacancy and whilst this figure has stabilised through temporary lettings (many of which are not paying rent) without significant investment this vacancy figure will increase. Furthermore, with the size and strategic positioning of the Baytree Shopping Centre this will result detrimental impacts on the town centre and will facilitate further degeneration on Brentwood Town centre if action is not taken. It is therefore of upmost importance that the council regain control and the ability to shape the town centre for future generations of local residents.

7. Acquiring the Baytree Shopping Centre resulted in the Council gaining a significant interest within the town centre, a site of strategic importance to the town centre and the ability to safeguard the provision of retail space and amenity services within the town centre. The redevelopment of this site was a crucial factor in the decision to initially acquire it.

8. The proposed redevelopment plan has the ability to significantly improve not only the Baytree Shopping Centre but the wider Town Centre, by creating new and improved public realm space, new and fit for purpose retail/leisure units and a 12,000 sq ft cinema unit. In addition to this the redevelopment has the potential to entice new operators to Brentwood providing a better all-dayan enhanced retail and leisure offering to the residents.

9. This proposal provides short term and long-term redevelopment opportunities to the Council in terms of potential further phases to the scheme, to increase the residential accommodation at the site and also improved connectivity and street enhancement works on the back of completing the current proposed development.

Issue, Options and Analysis of Options

10. The previous owners of the Baytree Shopping Centre had not invested in the scheme for many years, with the previous owner wishing to dispose of the scheme in favour of a residential lead redevelopment. This would have resulted in the loss of town centre amenities as well as the loss of employment opportunities. Therefore, it was vital that the Council acquired the scheme and

progressed with the redevelopment. This is to ensure the town centre amenities are maintained and enhanced as well as protecting and enhancing employment opportunities.

11. Developing the development site addresses a number of corporate initiatives as detailed in the Brentwood 2025 Corporate Strategy.

12. Undertaking the initial re-development enables the Council to directly assist in growing the local economy by securing additional employment opportunities for local residents. These opportunities will be supplied from a range of different business functions operating from the sites together. The redevelopment also creates additional residential muse houses along South Street.

13. The current income from Academy Place and Baytree since acquisition has been earmarked annually into an In-borough Regeneration reserve. Therefore, the income has not been supporting the General Fund Revenue Account since acquisition. It is assumed this reserve, as well as the income from Academy Place will be utilised throughout the development to support financing costs of the new development as well as cover the initial financing costs for acquisition. Mitigating the council budget from being placed under significant financial stress.

Options appraisal

14. Do nothing - The Council has the option to not undertake the redevelopment.

a) The Council/Borough would not benefit from the additional jobs created by increasing the employment opportunities within the Borough.
b) The Council would not benefit from the additional net revenue generated of £447,406 p.a. into the general fund.
c) The council may lose the opportunity to secure a cinema operator within the Town centre by not undertaking this development as no other suitable location has presented itself.
d) Without significant investment the appeal of the Baytree will diminish and thus the vacancy rate will keep increasing. This will result in the loss of Town Centre amenities and employment opportunities. Furthermore, with the size and strategic positioning of the Baytree Shopping Centre this will result detrimental impacts on the town centre and will facilitate further degeneration on Brentwood Town centre if action is not taken.
e) The financial pressure will increase on the Council’s finances by incurring costs of high void units and managing the asset

15. Approve the development on below proposal **(preferred option)**

a) This is a site of strategic importance to the Council.
b) This site provides the opportunity to undertake a number of phased redevelopments subject to viability assessments on all phases. The first phase proposed is to create space for a cinema, leisure and additional retail units, residential units and a new public space. This will create employment opportunities of local residents and also significantly improve the town centre public realm.
c) The wider impacts from the redevelopment will be realised across the High Street with new operators being enticed to Brentwood thus reducing vacancy on the High Street and contributing to a thriving local economy.
d) Provides an additional net income £447,406 p.a. into the Council's budget.

The Proposal

16. The Baytree sites enables major a re-shaping of Brentwood Town Centre and provides significant improvement to the local residents in terms of amenities and offer. The proposal is to redevelop the site to produce a mix of uses including cinema, leisure, residential, food and retail combined with an enhanced public realm. This will create a relevant, vibrant future heart to the town and prevent further negative impacts on the town centre by having a derelict shopping centre.

17. The redevelopment includes part demolition of existing 1960's retail units and shopping mall total (34,358 sq. ft) and refurbishment, and extension of 1960's retail units (31,549 sq. ft), to create a 12,000 sq. ft Cinema box, restaurant units and additional retail space. There will be 7 three/two bed muse houses along South Street and improved public realm including both hard and soft landscaping works and connectivity, incorporating Crown Street and the multi storey car park on Coptfold Road.

18. The proposed scheme comprises the first phase of a wider regeneration scheme for Brentwood High Street to ensure that it continues to meet up to date requirements and supports the local economy, it will include the following:
    a. Partial demolition of existing mall, retail units and substation
    b. Construction of new retail units
    c. Refurbishment and extension of existing retail units creating restaurant space and a 3/4 screen cinema
    d. Replacement substation
    e. Construction of terrace of 3-storey houses

f. Creation of new fire escape route
g. General rearrangement of existing spaces and retail units
h. Replacement of shopfronts
i. New external roof plant equipment, renewable energy measures and green roof finish
j. Hard and soft landscaping to new areas of public realm within application red line
k. Associated works and re-configuration Site preparation, including clearance of selected existing trees, shrubs, and other vegetation to facilitate the works.
l. Ecological and landscaping/biodiversity enhancements to the site.

19. The main work at this stage will be focused around a new public square, located towards the south of the Shopping Centre, away from the High Street frontage and Chapel Ruins. Minor work along the west side of Chapel High primarily comprises the replacement and enhancement of existing shop frontages in the interests of visual amenity and the overall appearance of the area.

20. The new facilities will be provided within the limits of the existing site, with a programme of demolition allowing for the efficient use of the town centre location, and to provide modern and sustainable buildings that will not only serve the needs of immediate users but provide flexible spaces for other town centre uses in the future.

21. The scheme has been designed to provide an open-air pedestrian route through its centre to a new Baytree Square" which will ensure a physical and visual link to amenity space around Chapel Ruins and the High Street itself, as well as new areas of high-quality public realm to allow the enjoyment of the site by a wide variety of users.

22. The scheme will include new residential properties along South Street. These will provide a complimentary land use and outlook for the existing dwellings on the opposite side of South Street, as well as an active street frontage in this location.

23. The reconfiguration of the site as a whole will also allow for service yards and parking facilities to be condensed and used more efficiently, as well as being predominantly covered.

24. The existing scheme will remain open during the redevelopment and all existing Public Rights of Way will be maintained and kept open as much as possible during the re-development phase.

25. The assumed program for the whole redevelopment is over 21 months with a suggested program contained within Appendix A feasibility report.

26. The proposed development has a time frame and intended development schedule as follows;

27. RIBA Stage 4 – Technical Design/Tender Period: 16-weeks (**proposed to align with planning determination period,

28. RIBA Stage 5 – Construction Period: 52-weeks.
    a. Contractor mobilisation – 1 Month
    b. Enabling/site preparation works period – 2 Months
    c. Main works construction period – 9 Months

29. It is proposed that construction will start Q2/Q3 2023 and will be completed by Summer 2025.

Financial Proposal

30. The current final redeveloped scheme is anticipated to produce approximately £1.78m of gross rent p.a. An increase of £625k compared to the current gross rent.

31. There is a development appraisal contained within Appendix B. In addition to the traditional development appraisal the Council must consider the financial impact on the Council's Medium Term Financial Strategy and Capital and Investment Strategy. This is disclosed within Appendix C.

32. The total development costs including all fees is £23,340,343. This includes contingencies for the following

    - build cost inflation & risk at 22%
    - additional build cost contingency at 5%
    - a 5% fee cost contingency

33. This is higher than the figures advised in the feasibility report due to additional contingencies fees and all other associated cost such as rent free being incorporated as prudent measures.

34. The total Gross Development Value is £36,099,855.

35. This gives a slightly positive profit of £170,505 once acquisition costs and development costs are deducted which equates to 0.47% profit on cost. It is

important to note however that with such large contingencies of over £1m it is projected this scheme will come in neutral. The development appraisal also includes the whole acquisition cost for the Baytree Shopping Centre.

36. This proposal produces a net additional revenue return for the General Fund of £447,406 p.a. once the residential sale values, borrowing costs and MRP allocations have been factored in. This includes the income from Academy Place as well

37. It is intended that the income from Academy Place would also support the reduced income at Baytree Centre whilst the redevelopment is worked up and delivered. Once completed the income from Academy Place and the Baytree Shopping Centre can be incorporated in to the general fund revenue account thus increasing the council funds.

38. It is envisaged that phase two of the master plan redevelopment would take place once vacant possession of the Eastern side of Chapel high is obtainable in 2028. This would be to create further residential streets, improved public space and fit for purpose retail. It would also enable the reinstatement of 'New Road' providing straight-line access from the high street to Coptfold Road. However, this phase would be subject to viability assessments and the Council's financial position.

Planning

39. Savills advising SAIL on planning have reviewed the policy requirements of the determining authority.

40. The principle of the redevelopment of the Baytree Centre is confirmed through Policy BC05 of the adopted Brentwood Local Plan. This policy refers to Brentwood Town Centre and specifically recognises the Baytree Centre as an opportunity area to improve permeability and integration into the wider public realm and to create a more welcoming and flexible space at the heart of the Town Centre.

41. The project team have engaged with Officers through the pre-application process, with an initial meeting held on 7th July 2022. The proposals were then the subject of a Design Review Panel on 8th August 2022. Written responses were provided to both of these meetings and in summary confirmed support for the proposals in principle. Specifically, the pre-application written feedback confirmed:

"Overall, it is considered that the principle of the development is supported and would be in line with the Council's adopted local plan policies".

42. Other comments have been fully appraised by the team to ensure they are factored into the finalisation of the proposals. This pre-application process has also included input from the Council's Heritage officer.

43. This positive position from the Council will be further supported by the additional public and member engagement foreseen between now and submission.

44. There are no known issues of concern with regards to ground condition, archaeology, noise, air quality or lighting that it is considered would prohibit the granting of planning permission on the site. Landscape and Visual Impact work is underway and the proposals will enhance the existing landscaping by incorporating further trees and vegetation.

45. The project team is currently on track to provide the supporting information required for a complete planning application ready for submission and validation in November

46. SAIL as part of the feasibility study have instructed various consultant reports required for the feasibility study and planning submission. Appendix A details the results of these supports in supporting the application for regeneration.

47. Proposals for the redevelopment of The Baytree Shopping Centre recognise the shifting demands of a contemporary retail environment, creating a visible, desirable destination of mixed retail, leisure and restaurant offers that support a daytime and evening economy.

48. Priority has been given to sustainable regeneration, replacing the existing internalized shopping centre format with high-quality public outdoor spaces. Fabric-first principals of design have been incorporated, retaining much of the existing buildings' structures and their embodied carbon whilst allowing for high levels of thermal performance. Renewable energy, operational carbon generation and water use are a key focus of the redevelopment's energy strategy.

49. The new 'streets-and-squares' format of the proposals and the building materials used are heritage- and townscape-led. Improvements are proposed to South Street's residential character. Pedestrian permeability along a key north-south desire-line is created. The reintroduction of a cinema and a new public Square at the heart of the Town Centre creates a focus for rejuvenated activity and entertainment and the potential for additional future connections – it lays the

ground for the northern and southern sections of the historic New Road to re-join.

50. The new architecture of the cinema box, its materials and texture, will capture the experience and excitement of a shared theatrical experience and add a new dimension to the existing town centre buildings. The use of a buff brick paired back detailing and considered proportion of the South Street houses and shop fronts enclosing the new Square will set these contemporary buildings sensitively alongside their historic neighbours. The introduction of a common shopfront design throughout the development, with controlled and repetitive fascia and bus stop signage and lighting brings a sense of order, identity, and quality.

51. The proposals build upon the positive consultation work undertaken to date, incorporating positive public feedback, the adopted Local Plan and Brentwood's Town Centre Design Guide, pre-application advice and an Essex Quality Review Panel critique.

52. Given the location of the shopping centre is set back from the route of the Roman road and from the Medieval High Street and chapel, the proposed development is unlikely to impact upon any highly significant archaeological remains that could preclude development. It is possible that remains of a most likely local significance could be impacted, however. Archaeological trenching is therefore likely to be required to assess presence/absence of remains requiring further mitigation. It is suggested that his is secured by attaching an appropriately worded archaeological planning condition to the granting of planning consent.

53. The long-term baseline noise survey is underway, and a noise monitor is on-site, the manned plant noise monitoring has now been completed. The baseline noise levels will be used to describe the existing environmental conditions and in combination with the noise modelling predictions will be used to determine the potential impacts of the proposed development.

54. Two types of assessment will be completed to assess the impacts of existing and proposed industrial noise sources on proposed and existing noise sensitive receptors and to assess the impacts of the existing noise environment on the proposed residential properties. The industrial noise assessment will set the noise limits for the external plant and equipment and will assess the impacts of vehicle movements in the service yard on the proposed residential properties.

55. The noise impacts of road traffic from the surrounding roads on the residential properties will also be considered, however, any impacts are likely to be minimal due to the low number of additional vehicles using the network.

56. The proposal will generate more demand for parking based on Essex County Council's Parking Standards SPD (2009) despite the reduction in floor area, owing to the change in composition of land uses going from mainly retail to a mixture of retail, restaurant/bar, and other leisure (gym and cinema) uses. A report prepared by Mayer Brown in 2020 including survey data indicates that there is capacity in Brentwood's three main car parks William Hunter Way, Chatham Way and Coptfold Road MSCP. Brentwood Borough Council commissioned 'Parking Perspectives' to develop a parking strategy for Brentwood town centre including collection of parking data from all the Council's car parks. Non-residential parking standards are expressed as maximum, and lower provision is appropriate in town centre locations such as in this case, including residential uses. On this basis we are confident that we can demonstrate that the proposal is compliant with policy BE13 of the adopted Local Plan.

57. For access and servicing it has been demonstrated that up to a 10-metre/18-tonne rigid bodied truck and a large refuse collection vehicle can comfortably enter, turn, and exit the proposed rationalised western service yard. There is an indication as to where five loading bays can be positioned within the service yard backing onto the service routes to the units, in reality there is space for a larger number of smaller vehicles in these spaces as well as around the yard.

Market Demand

58. Whilst the UK economy is not (at the date of this report), in recession the Bank of England has been forced to raise interest rates to 2.5% which is a 12 year high and has hinted that further increases are likely. The UK market is anticipating the base rate will hit 4% before the end of 2022 before stabilising during 2023. This increase is a direct action in an attempt to reduce the UK inflation rate which is currently 9.4% (significantly above the 2% target). Inflation is set to peak at approximately 13% during quarter 4 of 2022 before beginning to reverse in 2023 however to what extent it depends on how embedded inflation becomes in the wage bargaining process.

59. On top of high inflation and increasing interest rates, the UK is experiencing significant increasing in everyday items such as utilities creating a cost-of-living crises across the country.

60. Despite the increasingly challenging macro environment, feedback to the Q2 RICS Commercial Property Monitor was still on balance positive with the headline metric capturing both occupier and investor sentiment coming in at +6 compared with +17 in the preceding three-month period. Inevitably, however, the headline number continues to mask significant divergence in performance at a sector level. The industrials/logistics segment of the market remains particularly strong despite seeing prices rise on average by in excess of 60% over the past couple of years according to CBRE data. Significantly, the CBRE numbers also point to the vacancy rate in this area slipping to just 1.18%. In contrast there are some signs of a stalling in the rebound in the retail sector which, given the pressure on household budgets in the wake of the cost-of-living crisis, is not altogether surprising.

61. The sentiment in UK property market is widely viewed as entering a downturn phase of the cycle. Despite this, the downside threat to the market is relatively limited even with the challenge presented by rising interest rates and a weakening economic outlook. In particular, we would draw comfort from the relatively limited build-up of debt and development compared with some past real estate cycles.

62. The most recent official data for the sector (May) shows output some 5% up over the past twelve months and around 3.5% higher than in January 2020 (pre pandemic level). Inevitably, there is considerable volatility on a month-by-month basis particularly at a sector level.

63. In terms of forward-looking indicators, the Q2 RICS Constructions Monitor suggests that workloads will continue to grow over the next twelve months albeit at a somewhat lesser pace than currently in response to the more downbeat economic climate.

64. Although macro uncertainty is a growing concern, feedback to the RICS survey suggests that the more immediate challenges for the industry still revolve around building materials and labour.

65. Despite this backdrop and current economic performance there is a general consensus that during 2023 inflation will stabilise before falling and as a response the base rate will stabilise, easing pressure on consumers finances. This coupled with a reduction in utility prices during late 2023 early 2024 should provide consumers surplus finances.

66. This project if proceeded with will be constructed during a downturn and period of low consumer confidence with the completed scheme coming to the market during an upturn market in 2025.

67. Omni Retail have been directly involved with lettings at Baytree Shopping Centre since acquisition in 2021. During this time, the scheme has been in a state of paralysis hindered by the poor selection of dated and unfit for purpose retail units within a scheme which has limited appeal. Brentwood High Street has seen a number of new entrants, including Pret and Gail's Bakery. There are significant demands within the leisure and retail sectors to trade in Brentwood due to its affluent population and proximity to London. It is important to note that we also want to differentiate Brentwood from other town centre high street locations. In order to do this we will make sure the final tenant mix has a mixture of both national, regional and local operators to give Brentwood the edge over other locations nearby.

68. There are currently a significant number of leisure and retail occupiers who have expressed an interest in trading in Brentwood or have a live requirement for the town. These operators along with local, pop-up and new enterprise occupiers will ensure the tenant mix at the scheme is relevant and remains consistent with the local population's expectations.

69. The other new units and existing units are designed to be flexible, for example the proposed unit 6 has the capability of being split into 3 smaller units or let as one larger unit depending on market demands at completion. There are a number of operators both leisure and retail who have expressed interest in the redeveloped scheme along with live requirements for Brentwood. It will be important to determine the best tenant mix for not only the scheme but Brentwood as a whole therefore operators will be targeted along with leaving flexible retail space for either local start up business or pop-up shops.

70. Rental level - The historic valuation method of devaluating all premises to an ITZA failed to consider retailers' profitability, margins, and sales densities, has now been superseded with a global occupational cost based off a rate per square foot. The rates being used for the development ranging from £20 to £25 psft reflect current market conditions and are comparable to rents being paid in both Brentwood and similar affluent market towns in the Southeast. We expect that due to the scarcity of suitable large restaurant and retail units in the town together with the proximity to a new Cinema, ample nearby parking, and a new landscaped civic area in Baytree, that we may well be able to improve upon this expected rental rate psf.

71. With the range and quality of retailer interest that we have received to date, we expect to transact with a number of national brands whose covenant will be far superior to our existing tenant line-up and as such, in most instances, this will drive down the equivalent yields below 6%, further improving the Centre's capital value based on our market rents.

72. Given the current depth of demand, it is envisaged that it should be possible to identify a potential tenant for the units prior to practical completion of the proposed construction works. With this in mind, a full marketing campaign will be put in place to commence when construction starts on site. There is a high probability that the property will therefore be let on prevailing commercial terms at the point of completion, although it would be sensible to allow an additional three / six months post practical completion for the sake of expediency.

73. Halifax bank has stated that house prices rose at an annual rate of 9.9% in September with the increase being flat since June. This 9.9% represented the slowest rate since January and during September house price fell by 0.1% and we are entering a sustained period of lower growth.

74. The residential sales market in Brentwood is outperforming the national trend as there is an acute shortage of fresh supply coming to market which has led to chain inertia, stemming the speed at which transactions tend to complete.

75. The mean price paid for a property in the borough over the last 12 months is reported at £514,000 reflecting a 5.8% increase over the last 12 months. The mean price per square foot over the same period is £485.

76. As of September 2022, the median number of days it took to sell a house in the borough was 62 days. This has increased since December 2020 where it stood at 52 days however is still well below the January 2020 5-year high of 79 days. This reflects the increasing desire for accommodation in Brentwood.

77. It is clear that although the UK is facing serious head winds in respect to affordability and living costs there are pockets of the county where demand and affordability will continue to sustain a healthy residential property market. The is an expectation that house prices inflation in Brentwood will remain steady with neither significant increases nor any decreases in value over the next 18 months.

Council Due Diligence

78. The Council appointed Seven Arches Investments to undertake detailed due diligence and feasibility study on the development site this report is contained in Appendix A.

Risk Management

79. The Council via Seven Arches Investments Limited has carried out thorough due diligence process on the proposal as highlighted in the report.

80. It is intended that the Council will instruct SAIL to manage the development utilising their expertise and knowledge.

81. SAIL will instruct specialists to deliver the development and ensure the development is fully compliant with the statutory requirements.

82. The property will be included within SAILs property insurance policy once developed.

83. Market Implications have been considered such as:

- **Planning Risk** – Through consultation, consideration of planning policies and other relevant documents and regular being in regular dialog with the Local Planning Authority this risk can be reduced.

- **Construction Risk** – The risks associated with all developments will be closely manged with stringent legal contracts, cost monitoring and ensure industry experts are employed to manage the process.

- **Occupational Market Risk** – It is intended that agreement for lease's will be entered into prior to redevelopment to mitigate this risk. It is envisaged that both a local and national agent will be employed to undertake a full marking campaign maximising the potential occupants.

- **Cinema Market Risk** – It is the Council intention that an agreement for lease is entered into prior to redevelopment to mitigate this risk.

- **Retail Market Risks** – It is the Council intention that an agreement for leases are entered into with key operators prior to redevelopment to mitigate this risk.

- **Tenant default** – All this risk can never be fully mitigated through active asset management this risk can be managed and reduced.

- **Funding risk** – The proposal aims to reduce the financial implications in the council and with a staged approach to borrowing will enable close monitoring of this risk.

- **Property / Asset Issues** – Using industry experts to manage the properties these risks can be reduced significantly.

84. In conclusion, with all the due diligence and the feasibility study undertaken by SAIL, this proposed redevelopment is considered to be a good deal where a major in-borough asset is developed, providing increased revenue, employment opportunities and significantly improving the town centre amenities/attractions whilst contributing to a thriving local economy.

Reasons for Recommendation

85. The proposed phase 1 redevelopment of the Baytree Shopping Centre would allow the Council to invest in a significant town centre asset and enabling the redevelopment and regeneration of the site and providing much improved public realm, social space and street scape for the residents of Brentwood as well as a financial income to the council.

86. This phase 1 redevelopment will also produce new employment opportunities for the residents of Brentwood, it will help produce an evening economy based around Everyman Cinema and leisure uses which are incorporated into this redevelopment. This will provide significantly improved town centre amenities and the attractiveness of the town for further investment.

Consultation

87. No formal consultation has been undertaken or is required.

References to Corporate Plan

88. Value for Money: policies that invest in key services to create opportunity for all provide better value for Brentwood's taxpayers and enhance the Borough's infrastructure whilst modernising and transforming Brentwood Borough Council. We will re-prioritise and focus our resources and be innovative in our approach.

89. Our Borough: Policies which promote our environment, support sustainable growth, and safeguard our high-quality environment including heritage and countryside. We will provide responsive, accessible and forward thinking services for vulnerable residents, supporting people back into work and providing good quality housing making Brentwood our residents' Borough of Choice.

Implications

Financial Implications
Name/Title: Jacqueline Van Mellaerts, Corporate Director of Finance & Resources
Tel/Email: 01277 312500/jacqueline.vanmellaerts@brentwood.gov.uk

90. The detailed Financial Implication on the Councils MTFS and Capital & Investment Strategy are set out within Appendix C. It is expected that the Council will borrow externally from PWLB, however officers will manage the treasury function to maximise the best return for the Council and utilise Capital receipts plus short-term borrowing as appropriate.

91. Other financial considerations are also gained through development of this asset, such as maintaining business rate income that is included within the collection fund, as well as additional business rates and an increased tax base for the Mews houses.

Borrowing Limits

92. The proposed development will need to be incorporated into the Council's prudential indicators set out in its Treasury Management Strategy. For the current year, no revision is required to these indicators' due slippage within the current agreed Capital Programme the additional impact of £988k for this financial year can be maintained within existing set limits. The revision to these limits for 2023/24 onwards will be part of the budget setting process.

93. The Council currently has £173m amount of borrowing to date. Split £135m long term and £38m short term for the General Fund. There is also £57m of long-term borrowing for the self-financing of the HRA. This development will increase the current borrowing held by the Council; however, the financing costs can be funded from the income of both Academy Place and Baytree so there is no revenue strain on the General Fund.

94. It must be stressed that the development will undergo continuous viability assessments to ensure the scheme remain affordable to the Councils revenue account. If the optimised borrowing rate cannot be achieved then the project will be delayed to ensure the Council is not faced with financial burden. The scheme will only go ahead so long as it is financially viable to do so.

Legal Implications
Name & Title: Claire Mayhew, Corporate Manager (Democratic Services) and Deputy Monitoring Officer
Tel & Email: 01277 312741/claire.mayhew@brentwood.gov.uk

95. The recommendations set out within this report are within the Council's powers and duties. The Council has power under s1(1) of the Localism Act 2011 to do anything that individuals generally may do, provide it is not prohibited by legislation and subject to public law principles. There is no express prohibition, restriction or limitation contained in a statute against use of the power in this way. In addition, s111 of the Local Government Act 1972 gives a local authority power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Economic Implications
Name/Title: Phil Drane, Director of Place
Tel/Email: 01277 312500/philip.drane@brentwood.gov.uk

96. The council has acquired The Baytree Centre to directly deliver improvements that will have a positive impact on the wider local economy, among other things. Investment in The Baytree Centre to deliver regeneration will play a key part in improvements to Brentwood town centre. Provision of improved leisure and retail as part of regeneration delivers an objective that has been a corporate and local priority for several years. The recommendation helps facilitate an important milestone towards achieving town centre regeneration and drive economic growth.

Background Papers

None

Appendices to this report
Appendix A: Feasibility Study (Exempt)
Appendix B: Redevelopment Appraisal
Appendix C: Financial Impact Assessment

APPENDIX A

The appendix is confidential by virtue of the likely disclosure of information exempt under para. 1 and 3 of Part 1 to Schedule 12A to the Local Government Act 1972, namely information relating to any individual and information relating to the financial or business affairs of any particular person (including the Council).

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Appendix B

DRAFT DEVELOPMENT APPRAISAL - V1
PROPERTY: Baytree

TENANT	Option B
DATE	14/10/2022

Financial Appraisal

Unit		Sq ft	First Floor	ERV p. Bed or psqft	ERV £PAX	Yield	Cap Val	
New	Everyman	12,000		£ 14.00	£ 168,000	4.50	£3,733,333	
New	Unit 12	4,574		£ 25.00	£ 114,350	6.00	£1,905,833	
New	Unit 14	3,143		£ 25.00	£ 78,575	6.00	£1,309,583	
New	Unit 15	2,099		£ 15.00	£ 31,485	6.00	£524,750	
New	Unit 17	936		£ 25.00	£ 23,400	6.00	£390,000	
New	Unit 19	2,260		£ 25.00	£ 56,500	6.00	£941,667	
New	Unit 20	2,970		£ 20.00	£ 59,400	6.00	£990,000	
New	Unit 21	5,015	2,744	£ 25.00	£ 152,815	6.00	£2,546,917	
8	Wilkinsons	21,414		£ 8.17	£ 174,999	4.75	£3,684,200	
1 & 2	WH Smith Retail Holdings Limted	5,972		£ 11.00	£ 65,692	5.00	£1,313,840	
3	Assumed Vacant (currently temp Let)	1,190		£ 20.00	£ 23,800	6.00	£396,667	
3A	Savers Health and Beauty	3,118		£ 15.23	£ 47,500	6.00	£791,660	
4	Sportswift Limited	1,636		£ 12.23	£ 20,000	6.00	£333,335	
4A	Assumed Vacant (currently temp Let)	2,261		£ 20.00	£ 45,220	6.00	£753,667	
5	Sports Direct	11,313		£ 7.50	£ 84,848	5.00	£1,696,950	
6	German Kitchens Limited	3,456		£ 17.65	£ 60,998	6.00	£1,016,640	
7	The Works Stores Limited	2,431		£ 16.45	£ 39,990	6.00	£666,499	
9	JSD Essex Limited	1,633		£ 13.78	£ 22,503	6.00	£375,046	
9A	Mr Aurangzeb Khan	1,637		£ 17.10	£ 27,993	6.00	£466,545	
10	Vacant	1,571		£ 21.50	£ 33,777	6.00	£562,942	
11	Vacant	1,988		£ 21.50	£ 42,742	6.00	£712,367	
18	Greenwich Leisure	13,460			£ 164,560	5.25	£3,134,476	
Floors 1 &	PSW Building Consultancy Limited	2,277		£ 15.37	£ 34,997	6.00	£583,292	
Unit 2, 46-52 High Street	Waterstones	4,087		£ 11.01	£ 44,998	6.00	£749,965	
Unit 3, 46-52 High Street	National Westminister Bank Plc	7,416		£ -	£ 33,500	5.00	£670,000	
Unit 27	Vacant / Flexible retail	760		£ -	£ 17,500	6.00	£291,667	
Unit 26	Vacant	866		£ -	£ 27,000	6.00	£450,000	
Unit 25	Vacant / Flexible retail	681		£ -	£ 15,000	6.00	£250,000	
Unit 23	Flexible	-		£ -	£ 35,000	6.00	£583,333	
Unit 24	Flexible	-		£ -	£ 35,000	6.00	£583,333	
Total		**122,164**	**-**		**£ 1,782,141**		**£32,408,505**	
								£32,408,505

Unit		Sq ft	Units	ERV p. Bed or psqft	ERV £PAX	Yield	Cap Val	
	3 Bed Mews houses	8831	6	£ 425.00	£ 536,350		£3,218,100	
	2 Bed Mews House	1262	1	£ 375.00	£ 473,250		£ 473,250	
								£ 3,691,350

Gross Development Value	**£36,099,855**
Net Development Value	**£36,099,855**

Construction Costs	**Area**	Rate per ft	Area (Beds)	Rate p bed	Cost	Total Cost	
Construction Costs (Gardiner & Theobald)					£ 12,896,000	£12,896,000	
Contractors Design Risk (Gardiner & Theobald)	2.50%				£ 320,000	£ 320,000	
Construction Risks (Gardiner & Theobald)	7.50%				£ 640,000	£ 640,000	
Project Design Teams (Gardiner & Theobald)					£ 692,810	£ 692,810	
Contingency	5%				£ 644,800	£ 644,800	
Tender & construction inflation	7%				£ 902,720	£ 902,720	
Total Construction Costs						£16,096,330	
							£16,096,330
Other costs							
Capital contribution to Everyman					£ 1,250,000	£ 1,250,000	
Cap con new lettings					£ 1,500,000	£ 1,500,000	
Cinema 12 months rent free					£ 168,000	£ 168,000	
New lettings rent free (total all units)					£ 500,000	£ 500,000	
Rent Free to tenants in occupation during build - 6 months each tenant					£ 400,000	£ 400,000	
White Boxing Costs (incl changing places WC)					£ 300,000	£ 300,000	
New Shopfronts					£ 200,000	£ 200,000	
Secton 106					£ 250,000	£ 250,000	
							£ 4,568,000
Fees and Ancillary Costs							
Planning Costs				2.50%	£ 402,408		
Building regs				1.0%	£ 160,963		
Architect				2.0%	£ 321,927		
Quantity Surveyor				1.5%	£ 241,445		
Structural Engineer				1.5%	£ 241,445		
C.D Manager				1.0%	£ 160,963		
Surveys				1.5%	£ 241,445		
Building Services				1.0%	£ 160,963		
Fee contingency				5%	£ 96,578		
						£ 1,931,560	£ 2,028,138
Professional Costs							
Legal Fees on leases			7.5%		£ 133,661		
Development contract Fees			1.5%		£ 241,445		
						£ 375,106	£ 375,106
Additional Costs							
Agents Sales Fees Resi			1.0%		£ 32,181		
Letting Fees			6.0%		£ 106,928		
						£ 139,109	£ 139,109
Total Costs Excl Finance					£ 23,456,683		**£23,206,683**
Finance Rate			6.0%				
Development Period		Assumes s curve	16	£ 938,267			
Bank Arrangement Fees							
Bank Legal Fees							
Bank QS					£ -		
Total Finance Costs						£ 938,267	
Total Costs Incl Finance							**£24,394,950**
Development Value						£36,099,855	
Total Costs						£24,394,950	
Acquisitions Costs	**Total Rent**	£352,560	8.5%		£ 10,800,000		
Purchasers Costs					£ 734,400		
Total Purchasers Costs						**£11,534,400**	
Profit							**£ 170,505**
Profit on Cost					**0.47%**		

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Appendix C

Financial Impact

Of

Baytree Development

Contents

Current Financial Position

1.1 Currently the Council receives the following income from Baytree and Academy Place

Baytree - The income has been protected by the NOI guarantee up until early 2023. After this the NOI guarantee is no longer in place and the true income of Baytree is applicable this less expenses and SAIL's management fee is approximately £402k per annum

Academy Place - £1,016m (gross) less expenses and SAIL management fee of 3% approximately a net return of £833k to Brentwood Borough Council.

1.2 The interest payable and average MRP (minimum revenue provision) that is charged to the General Fund for these acquisitions are £992k

1.3 Since purchasing the strategic Assets the Council has been contributing the net income into an earmark reserve that specific use is to help support fund the In-borough regeneration. The balance on this reserve at 31st March 2022 (subject to audit) is £1,931m. It is forecast that this reserve is expected to hold funds of £2,809m by March 2023.

Capital Budget

2.1 The total capital budget for the development is £21,898,093. Split out as following

Table 1 – Total Budget

Cost	**Amount £**
Total Construction	16,096,330
Capital Contribution to Cinema	1,250,000
Capital Contribution to New Lettings	1,500,000
White Boxing Costs	300,000
New Shop Fronts	200,000
Section 106	250,000
Fees and Ancillary Costs	2,028,137
Professional Fees	273,626
Total Capital Budget	**21,898,093**

2.2 It is expected that planning will be submitted in November 2022 and the project will start on site September 2023. The Capital budget is therefore profiled over 3 financial years

Table 2 – Capital Budget Profile

Year	**Budget £**
2022/23	987,730
2023/24	12,451,880
2024/25	8,458,483

Financing the Project.

2.3 The Mews Houses that are being built are expected to be sold on the open market and are forecast to generate a capital receipt of £3,691,350. This capital receipt will be offset against the project costs reducing the amount the Council is required to borrow to fund the project.

2.4 The expected amount of borrowing is £18,206,743. With the MRP charged over 50 years the following table shows the impact on the General Fund Account regarding different interest rates.

Interest Rate	Total Interest pa	Total MRP pa	Total Charge pa
3.5%	637,236	364,135	1,001,371
4.0%	728,270	364,135	1,092,405
4.5%	819,303	364,135	1,183,438
5.0%	910,337	364,135	1,274,472

2.5 The assumption is that the Council will short-term borrowing for cashflow purposes during the build phase. Upon completion the Council will look to long term borrow. The current economic climate has seen interest rates from PWLB peak at over 5%, it must be stressed that current interest rates are higher than modelled, however, the expectation is that interest's rate should drop by 2024/25 and the Council will achieve its modelled rate of 3.5% to 4%.

2.6 The rental income from Baytree will grow, the income back to BBC is expected to be £1.699m per annum this is an increase of £1.297m compared to the current income (not including the NOI guarantee) of £402k. The additional income does not cover the financing costs for both the acquisition and development. However, the Council will have the ability to use the income from Academy Place to fund the increased financing costs.

2.7 the Proposed Impact of the increased financing costs funded from the increased rental income at Baytree and utilising Academy Place's rental income is tabled below.

Table 3 – Financing Costs

Acquisition Financing Costs	992,098
Baytree Development Financing Costs (4%)	1,092,405
Total Financing Costs	2,084,503
Revised Net Income	2,531,909
Surplus Income	447,406

2.7 This will leave a balance of £447,406 per annum that can continue to be earmarked or can be released into the General Fund to reduce the deficit currently being forecast in future year.

Revenue Implications

3.1 The proposed development means that the General Fund has to finance the borrowing at approximately £1.092 per annum. Table 3 demonstrates that the Council can utilise the growth in rental income and the income from Academy Place to finance these costs.

3.2 The revenue income growth is only effective 6 to 12 months after the project is complete. This is due to letting the cinema with a 12-month free period and new lettings with 6-month free period. In addition to this the current businesses will also have a 6-month rent free period to compensate them whilst the building work commences. All businesses are expected to remain open and be able to trade.

3.3 The costs associated with letting fees and lease legal fees are also revenue costs and need to be factored into the Council's budget. It is expected that the loss of rent and any other costs will be met from the In-borough Regeneration Reserve so that the General Fund is not affected financially through the development of Bay tree. The forecast utilisation of this reserve is tabled below

Table 4 – Utilisation of In-Borough Regeneration Reserve.

	Drawdown on Reserve	Balance
Forecast Opening Balance		2,809,313
2023/24	(480,197)	(480,197)
Forecast Closing Balance		2,329,116
2024/25	(758,393)	(758,393)
Forecast Balance		1,570,723
2025/26	(70,000)	(70,000)
Total	1,308,589	1,500,723

3.4 There is a balance of £1,501m. This balance can be used to fund in year short-term borrowing for the development phase. In addition, the balance can remain to support future works at a later date. For example, funding further feasibility works for phase two of the project. The balance of the reserve will be reviewed by the Section 151 officer on an annual basis and any balance and its use will be determined by this officer in the best interest of the Council's financial position.

3.5 5 In addition to revenue costs, the additional economic growth with generate business rate income. This additional income is expected to be approximately £58k of which the Councils share would equate to £23k.

Committee: Ordinary Council	**Date:** 2 November 2022
Subject: Childerditch Industrial Estate Development Proposal	**Wards Affected:** Warley
Report of: Phoebe Barnes – Director Assets and Investments	
Report Author: Name: Phoebe Barnes – Director – Assets and Investments E-mail: phoebe.barnes@brentwood.gov.uk	**For Decision**

Summary

This report sets out proposals for the Council to develop 6.66 acres of development land for open storage employment land at Childerditch Industrial Park, Brentwood, CM13 3HD

Childerditch Industrial Park is a 42.75 acres mixed use industrial park strategically located adjacent to the A127 dual carriageway (within the South Brentwood Growth Corridor), which links to Junction 29 of the M25, less than two miles west of the property. This makes it within close proximity to the planned Lower Thames Crossing route, providing for wider links in future and solidifying the site as a successful industrial location.

The property provides industrial and warehouse accommodation totalling 173,386 sq ft, in addition to extensive areas of secure open storage, totalling 16.6 acres. This represents a very low 'site density' of 12.5% (built area). The total net lettable area is 24.25 acres, plus a 'development site' of 4.66 acres (subject to Planning), which is being extended to 6.6 aces to facilitate the relocation of the Warley Depot. The whole site was acquired in February 2021 for £59m (apportioned £54.5m for the 'income' and £4.5m for the development land of 4.66 acres in size).

The proposed development is to clear of shrubs and weeds the 4.6 acres site known as the development site together with the additional 2 acres of land to the southwest of the site let to Essex County Council and to create 3 market standard open storage yards, two (sites A1 and A2) of which will be let on the open market and yard B will be reserved to house the Councils depot at nil rent.

The total costs of the development are forecast to be £6.103 m split between a capital forecast of £5.460m and revenue forecast of £643k with a projected peak cash flow of £3,000,000 with a development time period of 24 weeks once the contractor has been appointed. It is anticipated that Seven Arches Investments Limited will select the development partner during planning permission process in consultation with Council Officers.

There are currently 25 tenants, generating a gross rental income of £2,804,882 per annum. This development would increase this to 27 tenants and a gross rental income

of £3,363,632 per annum. Producing an additional £180k net revenue to the council per annum.

This additional open market open storage space is projected to increase the in Borough employment opportunities within Class E (formally B1), B2 and B8 employment uses and storage yards and increase the number employed at the park from approximately 700-800 people by approximately 50 people.

Officers and SAIL have completed an intensive feasibility study due diligence on the proposal and considered appropriate risk management implications. A detailed feasibility study on the development is set out in Appendix A.

Recommendations

R1. That a total capital budget of £5.460m is approved for the intended development at Childerditch Industrial Estate as set out in the report. That this budget is profiled with the Council's Capital and Investment Strategy as follows:

2022/23 £938,967
2023/24 £4,521,326

R2. That delegated authority is given to the Director of Assts & Investments in consultation with the Section 151 Officer, Monitoring Officer and Leader to take all steps necessary, including entering into any legal agreements required, to complete the development proposed at Childerditch Industrial Estate, Brentwood.

Main Report

Introduction and Background

1. The site is was acquired in February 21 from John Ford and Janet Lindsay Mugleston (the seller) for £59m.

2. Childerditch Industrial Park includes a mix of enclosed plots and industrial warehouse buildings from various parts of the mid-twentieth century onwards, the site extends to 42.75 acres. The units are accessed from the A127 via a private access road named Childerditch Hall Drive which is included as part of the sale of the site. The property is in a rural setting in the south of the borough. The M25 motorway is located to the west and A127 to the south.

3. The current site has a very low site density of 12.5% (built area) with a total net lettable area of 24.25 acres, plus the development site of 4.66 acres which is allocated in the Local Development Plan for employment land.

4. The proposed development site is split into two sections with 4.66 acres being contained within the local development plan as employment land and 1.5 acres is contained within the wider estate planning permission with 0.5 acres being within green belt.

5. The development site has the ability to produce space for three new business with an estimated rental income of £1,053,000 p.a. and a net operating income of approximately £1,053,000 p.a. in year one. If the whole site was let on the open market. The proposal assumes that the Warley Depot relocates to site B not paying any rent p.a. therefore the estimate rental income of the proposed development reduces to £558,750 p.a.

6. This proposal provides short term and long-term redevelopment opportunities to the Council in terms onsite industrial warehouse/storage potential given the strategic location. Furthermore, this site provides immediate opportunities to facilitate the un-locking for redevelopment and regeneration sites within the wider borough and the ability to safeguard the provision of employment opportunities within the borough.

Issue, Options and Analysis of Options

7. Developing the development site addresses a number of corporate initiatives as detailed in the Brentwood 2025 Corporate Strategy.

8. Developing the development site enables the Council to directly assist in growing the local economy by securing additional employment land which will provide additional employment opportunities for local residents, supplied from a range of different business functions operating from the sites.

9. The development site also provides significant opportunities to provide enhanced facilities, enterprise and further investment into the borough.

10. The opportunity to increase the amount of open storage land within the Borough which is an increasingly rare commodity in the borough and South East region will mitigate the treat to the current employment opportunities within the borough and with limited availability for business to relocate out of Borough. This will increase the likelihood that local businesses will be retained within Borough.

11. There is a clear need to protect and enhance employment areas within the borough and by completing the development this will secure and additional 6.6 acres of industrial space in the borough.

12. Childerditch Industrial Park is designated in the Council's current development plan for employment-general and open storage (Brentwood Replacement Local Plan, 2005). The Council's Local Development Plan (LDP) included the majority development site (6.66 acres) providing employment land associated opportunities for job creation benefiting local residents in the Borough and in surrounding areas. There is an additional 0.5 acres of the development which sites within the current Green Belt however this proposed development off sets this incursion by returning 0.5 acres of the current industrial park to Green Belt; therefore, there is no net loss of green belt land.

13. Utilising site B of the proposed development to relocate the Warley Depot will enable redevelopment and regeneration of the depot site into good quality homes for the Borough and could in turn will facilitate the wider regeneration of the Keys Hall Estate thus significantly improving housing within the Borough.

Options appraisal

14. The Council does nothing - The Council has the option to not undertake the redevelopment.

a) The Council would not benefit from the additional jobs created by increasing the employment land within the Borough.
b) The Council would not benefit from the additional net revenue generated of £180k p.a. into the general fund.
c) The council may lose the Warley Depot redevelopment opportunity by not undertaking this development as no other suitable location has presented itself.
d) Due to the scarcity of open storage land the Borough may see businesses struggle to find suitable expansion or contraction sites therefore be forced to relocate to neighbouring Boroughs. This would have an additional lose to the Borough of employment opportunities and business rate reduction.

15. Approve the development on below proposal **(preferred option)**

a) This is a site of strategic importance to the Council.
b) This site provides the opportunity to re-locate the Warley depot which in turn not only unlocks that site for house but wider regeneration of a dilapidate area within the Borough.

c) The site enables the council to increase the land allocated for a use class which is rapidly being eroded within the South East region protecting and enhancing employment within the Borough.
d) Provides an additional net income £180k p.a. into the Council's budget.

The Proposal

16. Childerditch Industrial Park is located in the south of Brentwood Borough, Essex approximately 30 miles north east of Central London. The property is adjacent to the A127 dual carriageway which links to Junction 29 of the M25, less than 2 miles west of the property. The site generally includes a mix of enclosed plots and industrial warehouse buildings

17. The Dartford Crossing is located at Junction 30 of the M25, which provides access to Tilbury Port and to the ports at Dover and Folkestone via the M2 and M20 respectively. The site will further benefit from the construction of the Lower Thames Crossing, connecting the M2 in Rochester to Junction 29 of the M25 via a tunnel between Gravesend and Tilbury.

18. Childerditch Industrial Park comprising a range of Class E (formerly B1), B2 and B8 employment uses and storage yards. The land surrounding the Park is designated as Metropolitan Green Belt. The Industrial Park is not located within a Conservation Area, nor is it adjacent to a listed building. The existing Park is allocated partly for open storage and partly for employment purposes within the adopted Development Plan (Policy E6).

19. The site extends to 42.75 acres. This proposal would increase the site to 49.41 acres into total.

20. The development site was acquired in February 21 for £4.5m as part of the wider estate acquisition. There was zero income attributed to the development site and no income has been forecast to date.

21. The proposal produces three sites A1, A2 and B totalling 290,276 square feet (6.6 acres), suitable for open storage users. The specification for the construction proposed is contained within the detailed feasibility report in Appendix A.

22. Sites A1 and A2 lie 100% within the allocated land for employment under the Local development plan.

23. The majority of Site B is within the allocated land for employment under the Local development plan with 0.5 acres within green belt. It has been necessary

to encroach into the green belt to facilitate a usable shaped site which is capable of housing the Council depot requirements.

24. To ensure the green belt is protected this proposal returns 0.5 acres of industrial land to green belt ensuring there is no net loss of green belt land.

25. There is a development appraisal contained within Appendix B.

26. The total development costs including all fees and borrowing costs is £6,542,997. This includes contingencies for the following:
    - build cost inflation & risk at 20%
    - additional build cost contingency at 10%

27. This is higher than the figures advised in the feasibility report due to additional contingencies being incorporated as prudent measures.

28. The total Gross Development Value is £12,416,667

29. This gives a profit of £1,067,700 once acquisition costs and development costs are deducted which equates to 9.41% profit on cost.

30. This proposal provides the costs of producing market standard open storage of site B enabling the Warley depot to relocate with no rental income or value factored into the appraisal.

31. This proposal produces a net additional revenue return for the General Fund of £180k p.a. once borrowing costs and MRP allocations have been factored in. the Full financial assessment of the development is included within Appendix C.

32. Reversionary Rental Income of Sites A1 & A2 of £647,744 per annum at year 5 (assuming rental growth at 3% per annum). Thus, growing the returns to the council and reducing the payback period.

33. The proposal would take approximately 12 years to payback using 100% of the year 1 rental income and 23 years if you used the net profit returned to the Council.

34. The proposed scheme provides a 4.9% return on investment including acquisition costs and 8.5% excluding acquisition costs.

35. The whole industrial park is currently producing a passing rent of £2,804,882 p.a. with an estimate rental value of £3,467,883. If we include the additional income from the proposed development this increases to £3,363,632 passing rent and an estimate rental income of £4,026,633.

36. The proposed development has a time frame and intended development schedule as follows;

    a. RIBA Stage 4 – Technical Design/Tender Period: 12-weeks (**proposed to align with planning determination period,

    b. RIBA Stage 5 – Construction Period: 24-weeks.
        i. Contractor mobilisation – 1 Month
        ii. Enabling/site preparation works period – 2 Months
        iii. Main works construction period – 3 Months

37. It is proposed that construction will start summer 2023 and will be completed by Summer 2024.

Planning

38. Savills advising SAIL on planning have reviewed the policy requirements of the determining authority.

39. The majority of the site has been allocated for employment development as part of the recently adopted Local Plan.

40. The most relevant policy to the site is therefore Policy E12. The majority of the Site is allocated within Policy E12. The other, smaller, element of the Site is within the Green Belt.

41. Policy E12 of the Local Plan allocates around 20.54ha of land for employment development which may comprise offices, light industrial, research and development (within Class E), B2, B8 or sui generis employment uses. It also states that other ancillary supporting development may be permitted as a means of supporting these principal employment uses.

42. The principle of employment development is therefore supported by planning policy.

43. In relation to development principles, Policy E12 states proposals for development should:

    a. include appropriate landscaping treatment to improve visual amenity on site, and safeguard and where possible and appropriate, enhance the visual amenity of the adjoining green belt;
    b. provide access to the site via the eastbound A127;

c. make provision for improved walking and cycling links within the site and to the surrounding area;
d. provide new public transport or Demand Responsive Travel links with the surrounding area; and
e. any future development should sustain and where possible enhance the significance of the Grade II* listed Registered Park and Garden of Thorndon Hall, and the Thorndon Park Conservation Area and their settings.

44. The proposal forms the first phase of development of the Childerditch site and has been developed to be consistent with the requirements of the policy. The supporting reports cover the policy requirements ensuring they are consistent with the initial first phase of the site as open storage use, further consideration will need to be given to the policy requirements by any application for further development on the site.

45. The proposed development has been considered by the local planning authority by way of pre-application consultation during May 2022. The proposals take account of this guidance and ensure there is no greater use of green belt land area than that included in the existing allocation. Where elements of land outside of the employment allocation and within the green belt are to be brought into employment use, these are replaced by an equal area of land that will now be retained undeveloped. These areas will provide for landscape and biodiversity enhancement, as well as improving access to the green belt for employees on the estate. The scheme will involve the realignment of the existing public right of way with opportunities to improve access to this route.

46. The landscape areas will also provide opportunities for new tree planting, and ecological measures are proposed in these areas as well as potentially on nearby land to ensure a gain in terms of biodiversity.

47. There are no known issues of concern with regards to ground condition, archaeology, noise, air quality or lighting that it is considered would prohibit the granting of planning permission on the site. Landscape and Visual Impact work is underway and the proposals will retain the existing large trees and boundary planting towards the west of the site in particular.

48. SAIL as part of the feasibility study have instructed various consultant reports required for the feasibility study and planning submission. The detail of these reports are within Appendix A.

Market Demand

49. There is limited industrial space within the borough comparable to the uses provided at Childerditch Industrial Park. The Brentwood Local Development Plan proposes the redevelopment of some existing employment land in sustainable urban locations predominantly surrounded by residential areas (such as Brentwood Town Centre, the Council's depot site in Warley, and West Horndon). Whilst this redevelopment includes provision of mixed uses with provision for replacement employment land and/or jobs, it does result in the loss of almost 19 hectares of employment land. This places demands on the industrial supply of land and the need for additional land to meet needs, whether that is through the allocation of more land or the use of existing land for more efficient and/or intensive use. The Local Development Plan spatial strategy and associated policies aim to meet these needs, including the allocation of Childerditch Industrial Park for employment uses with expanded boundaries.

50. There are only four open storage sites currently available in the wider area, which are in Rainham (Havering), Woodford (Redbridge), and Thatcham (West Berkshire), with limited availability.

51. Kemsley's have advised they maintain a live requirement database, which confirms the numbers of requirements specific to Brentwood Brough and the surrounding area for open storage land, as follows:

    a) Open Storage Land / Yard: (0.5 – 2 acres) has 55 new requirements over the last 6 months.

52. In total over the last six months alone, Kemsley have received enquiries for over 850,000 sq. ft. of industrial space and over 50 acres of open storage space.

53. Combining this depth of demand with constrained levels of supply, helps to keep periods of vacancy to a minimum and drive rents up.

54. Given the ongoing lack of development in and around London, Kemsley are optimistic for growth going forward off the current rental bases. They anticipate an annual growth rate of circa 3%. Therefore, the long-term returns projected for this site are considerable and with clever asset management a future proof, flexible and secure asset can be achieved.

55. Demand for industrial and logistics investments has remained strong throughout 2022. This strength in occupational demand, coupled with limited supply, especially in the South East, has been a key driver for a wide variety of investors seeking greater exposure to the sector.

56. The South East remains one of the core target areas for investors and has witnessed record yields being achieved in Greater London and the South East.

57. The diversity of income offered by multi-let industrial estates remains highly sought after but with a greater scrutiny on rent recovery which has been excellent in respect of this investment.

58. CBRE: prime multi-let estate in Greater London of 2.85%, and outside London of 3.75%. All these yields are 'trending stronger'.

59. Savills: downward shift of between 50 and 25 bps over the course of 2021/22 with prime distribution and multi-let industrial yields now both at 3.25%.

60. Colliers research team report an increase of 11.3% in London, 9.2% in the inner Southeast and 8.7% nationwide. This makes the industrial sector one of the best performing asset classes, attracting a wide range of funds. In 2021, Capital Markets experienced £16.7 billion of industrial property transactions and this trend is set to continue this year, albeit a slow-down may now be experienced as a result of global events. This weight of money entering the sector has seen the trend of yield compression continue too. In London, this is now sub 3%, in the inner Southeast sub 4%

61. The supply and demand of industrial, warehouse and storage accommodation has changed considerably over the last 20 years and is facing unprecedented levels of demand and a supply/demand imbalance as a result of:

a) Population growth & economic growth: the population and economic growth, particularly within London and South East, has placed additional demands on industrial accommodation to service those consumers and businesses. Between 2009 and 2021, London and the South East has seen the largest net increase in new jobs of any region in England with a net addition of 1.8 million jobs created which represents 47% of all new jobs in England (ONS) despite only a third of the population living there.

b) Ecommerce Growth & Supply Chain Evolution: The UK has seen a relentless increase in ecommerce over the last 10 years and is the largest online market in Europe. This trend has dramatically accelerated during the current Covid-19 pandemic with online retail sales increasing from 20.1% in January 2020 to 36.0% in November 2020 Office of National Statstics (ONS). To meet 'just in time' requirements logistic networks are often being reconfigured to a 'hub and spoke' models with both large warehouses and smaller units in close proximity to their final delivery destination and densely populated urban areas. This is driving additional demand for industrial uses in those areas.

c) Release of Industrial Land: Significant industrial land has been released and redeveloped for residential uses. This is particularly prevalent in London. The London Borough of Havering, which adjoins the Brentwood Borough to the east, has lost the most industrial land of any London borough. This trend is expected to continue as the loss of manufacturing space within London is outstripped by demand for industrial close to urban locations driven by a combination of London's population growth and the shift to online retailing.

62. The supply of good quality industrial/warehouse stock has continued to reduce over the last few years as we have experienced increasing levels of demand and consistent take up. This is likely to become more acute as time goes by, due to loss of industrial floorspace to make way for residential redevelopment. West Horndon Industrial Estate, is of particular relevance. This is proposed for residential-led mixed-use redevelopment on a phased basis in the emerging Local Development Plan. Consequently, any units that become vacant are only offered on leases of up to two years, to allow flexibility to obtain vacant possession for redevelopment. We anticipate that a number of tenants will be displaced, further reducing the supply of industrial accommodation. This will potentially create increased demand for space at CIP.

63. Similarly, as more industrial space in City fringe areas is re-developed into residential, companies have been displaced from East London into the M25 and Essex region. Inside the North Circular Road and Closer to London, industrial rents range between mid-teens to £20 per sq. ft. Relocating to CIP, where current rents are £10 to £14 per sq. ft., is therefore quite attractive. Accordingly, we anticipate that rental values will continue to increase over time, as supply diminishes.

64. As a result of these factors, there is a supply/demand imbalance, particularly within London and the South East.

65. Levels of enquiries for units on established multi-let industrial estates have also remained robust, with many occupiers actively seeking units with secure yard

areas and generous external car and van parking. Similarly, the lack of well-maintained open storage opportunities has had a positive impact on rents being achieved for this type of space.

66. Sites A1 and A2 have been tentatively marketed for pre-letting ahead of development and to date we have had 30 enquiries and 2 offers received. However, it is felt that current market demand and availability of comparable stock does not warrant pre-lets to occur at this time. This is closely monitored and should it become apparent that action is required to secure tenants, agreement for leases will be entered into.

Council Due Diligence

67. The Council appointed Seven Arches Investments to undertake detailed due diligence and feasibility study on the development site this report is contained in Appendix A.

Risk Management

68. The Council via Seven Arches Investments Limited has carried out thorough due diligence process on the proposal as highlighted in the report.

69. It is intended that the Council will instruct SAIL to manage the development utilising their expertise and knowledge.

70. SAIL will instruct specialists to deliver the development and ensure the development is fully compliant with the statutory requirements.

71. The property will be included within SAILs property insurance policy once developed.

72. Market Implications have been considered such as:

   a) **Planning Risk** – Through consultation, consideration of planning policies and other relevant documents and being in regular dialog with the Local Planning Authority, this risk can be reduced.

   b) **Construction Risk** – The risks associated with all developments will be closely manged with stringent legal contracts, cost monitoring and ensure industry experts are employed to manage the process.

   c) Occupational Market Risk – It is intended that agreement for lease's will be entered into prior to redevelopment to mitigate this risk. It is envisaged that both a local and national agent will be employed to undertake a full marking campaign maximising the potential occupants.

d) **Cyclical Market Movements** – Cyclical market movements are a risk no one can truly mitigate however it is the intention that the council would not sell this asset with long term returns taking precedence over short term gains. The nature of the tenant makeup at the site provides some risk management and it is intended that a solid tenant mix will continue.

e) **Tenant default** – All of this risk can never be fully mitigated however through active asset management this risk can be managed and reduced.

f) **Market Competition –** There is very limited availability of industrial accommodation within the local area. As detailed within Kemsley's occupational report, there no open storage sites available locally and within the wider area there are only four open storage areas currently available which are in Rainham, Woodford and Thatcham. Should market competition increase the base rental levels as such that this site is excellent value for money and will remain competitive even with increased competition.

g) **Property / Asset Issues** – Using industry experts to manage the properties these risks can be reduced significantly.

73. In conclusion, with all the due diligence and the feasibility study undertaken by SAIL, this proposed development is considered to be a good deal where a major in-borough asset is developed, providing increased revenue, employment opportunities and the relocation of the Warley depot to facilitate new homes being constructed.

Reasons for Recommendation

74. The development of the site will produce an increase net revenue to the council, increase the employment opportunities within the borough and enable the relocation of Warley Depot to a sensible location facilitating the redevelopment of the Warley depot for good quality housing. Furthermore, by undertaking the redevelopment of the Warley depot site it would enable the wide redevelopment master plan to proceed at pace.

75. The Industrial Park provides for a diverse range of national and local tenants, employing 700-800 persons. The proposed development seeks to expand this providing more employment opportunities.

76. The development at Childerditch Industrial Park will provide an increased net contribution to the Councils budget of £180k p.a. enabling the council to provide

services to the Borough's residents but also assist in balancing the Councils budget.

Consultation

77. No formal consultation has been undertaken or is required.

References to Corporate Strategy

78. Value for Money: policies that invest in key services to create opportunity for all provide better value for Brentwood's taxpayers and enhance the Borough's infrastructure whilst modernising and transforming Brentwood Borough Council. We will re-prioritise and focus our resources and be innovative in our approach.

79. Our Borough: Policies which promote our environment, support sustainable growth, and safeguard our high-quality environment including heritage and countryside. We will provide responsive, accessible and forward-thinking services for vulnerable residents, supporting people back into work and providing good quality housing making Brentwood our residents' Borough of Choice.

Implications

Financial Implications
Name/Title: Jacqueline Van Mellaerts, Corporate Director of Finance & Resources, Section 151 Officer
Tel/Email: 01277 312500/jacqueline.vanmellaerts@brentwood.gov.uk

80. The detailed Financial Implication on the Councils MTFS and Capital & Investment Strategy are set out within Appendix C. It is expected that the Council will borrow externally from PWLB, however officers will manage the treasury function to maximise the best return for the Council and utilise Capital receipts plus short-term borrowing as appropriate.

81. Other financial considerations are also gained through development of this asset, such as maintaining business rate income that is included within the collection fund, as well as additional business rates through growing the businesses in the borough. For this development this equates to around £114k for the Council.

82. The proposed development will need to be incorporated into the Council's prudential indicators set out in its Treasury Management Strategy. For the current year, no revision is required to these indicators' due slippage within the current agreed Capital Programme the additional impact of £939k for this

financial year can be maintained within existing set limits. The revision to these limits for 2023/24 onwards will be part of the budget setting process.

83. The Council currently has £173m amount of borrowing to date. Split £135m long term and £38m short term for the General Fund. There is also £57m of long-term borrowing for the self-financing of the HRA. This development will increase the current borrowing held by the Council; however, the financing costs can be funded from the additional income so there is no revenue strain on the General Fund.

84. For whatever reason there are delays to the start on the development the underspends on budgets will be brought forward as slippage into the new financial year as per the Councils Financial Regulations.

85. It must be stressed that the development will undergo continuous viability assessments to ensure the scheme remain affordable to the Councils revenue account. If the optimised borrowing rate cannot be achieved then the project will be delayed to ensure the Council is not faced with financial burden. The scheme will only go ahead so long as it is financially viable to do so.

Legal Implications
Name & Title: Claire Mayhew, Corporate Manager (Democratic Services) and Deputy Monitoring Officer
Tel & Email: 01277 312500/claire,mayhew@brentwood.gov.uk

86. The recommendations set out within this report are within the Council’s powers and duties. The Council has power under s1(1) of the Localism Act 2011 to do anything that individuals generally may do, provide it is not prohibited by legislation and subject to public law principles. There is no express prohibition, restriction or limitation contained in a statute against use of the power in this way. In addition, s111 of the Local Government Act 1972 gives a local authority power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Economic Implications
Name/Title: Phil Drane, Director of Place
Tel/Email: 01277 312500/philip.drane@brentwood.gov.uk

87. The council has acquired Childerditch Industrial Estate to directly deliver improvements that will have a positive impact on the wider local economy, among other things. Investment in the industrial estate to deliver new and improved employment land will contribute to the boroughs variety of spaces for businesses to operate and grow. The recommendation ensures the council as landowner can contribute to economic growth, a key corporate priority.

Appendices to this report

- Appendix A: Childerditch Industrial Park Acquisition report (Exempt)
- Appendix B: Development appraisal
- Appendix C: Financial Impact Assessment

APPENDIX A

The appendix is confidential by virtue of the likely disclosure of information exempt under para. 1 and 3 of Part 1 to Schedule 12A to the Local Government Act 1972, namely information relating to any individual and information relating to the financial or business affairs of any particular person (including the Council).

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Development Appraisal: Childerditch Industrial Park

Area, Rental & Value Summary

	GIA Sq Ft	Rent £ psf	Rent Pa	Yield	Value
Site A	78,000	£3.75	£292,500	4.50%	£6,500,000
Site A	71,000	£3.75	£266,250	4.50%	£5,916,667
Site B BBC Depot	141,276	£0.00	£0	5.00%	£0
	290,276		£558,750		**£12,416,667**

GROSS DEVELOPMENT VALUE

ACQUISITION COSTS

Land Price	*£965,665 Per acre*		£4,500,000	
Stamp		5.00%	£225,000	
Agent Fee + VAT		1.00%	£54,000	
Legal Fee + VAT		0.50%	£27,000	
			£4,806,000	**£4,806,000**

CONSTRUCTION COSTS*

		m cubed	GIA Sq Ft	Cost £ psf	Cost	
Preliminary Costs	15%				£549,026	
Main contractor Oh&P	5%				£183,009	
Site Preparation					£83,175	
Retaining Wall					£290,000	
Concrete					£794,000	
Concrete Depo					£794,000	
Drainage					£310,000	
Fencing					£159,000	
Boundary Works			4,305	£25.00	£80,000	
Landscaping					£650,000	
Biodiversity					£250,000	
Other					£250,000	
					£3,660,175	**£4,392,210**
Contingency				10.00%	£366,018	
						£366,018

PROFESSIONAL FEES

Professional Fees	12.00%	£527,065	
Planning & Highways		£175,000	
Risk and inflation costs	20%	£878,442	
		£702,065	**£702,065**

Letting/Marketing Fees

Marketing Costs		£0	
Agents Fees	10.00%	£55,875	
Legal Fees	5.00%	£27,938	
		£83,813	**£83,813**

FINANCE

	Rate			
Interest Rate	8.00%	pa	0.6434030%	pcm

	Sum	Interest bearing period		
Interest on land	£4,806,000.00	0 months	£0	
Interest on construction costs	£4,758,228	12 months	£380,658	
Interest on professional fees	£702,065	12 months	£56,165	
Interest on marketing	£83,813	6 months	£3,288	
			£440,111	**£440,111**

TENANT INCENTIVES

Rent Free (none)	**£558,750**
TOTAL COSTS	**£11,348,967**
TOTAL PROFIT	**£12,416,667**
DEVELOPER'S PROFIT	**£1,067,700**
Profit on cost	9.41%

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Financial Impact

Of

Childerditch Development

Contents

Current Financial Position

1.1 Currently the Council receives the following income from Childerditch of approximately £2,720,735

1.2 The interest payable and average MRP (minimum revenue provision) that is charged to the General Fund for the acquisition of this asset is £2,323,167

1.3 Since purchasing the asset the net income has been support the services within the General Fund.

Capital & Revenue Budgets

2.1 The total capital budget for the development is £5,460,293. Split out as following

Table 1 – Total Budget

Cost	Amount £
Preliminary Costs	549,029
Main Contractor	183,009
Site Preparation	83,175
Other Contractor Costs	3,577,000
Contingency	366,018
Professional Fees	702,065
Total Capital Budget	**5,460,293**

2.2 It is expected that planning will be submitted in November 2022 and the project will start on site Summer 2023. The Capital budget is therefore profiled over 3 financial years

Table 2 – Capital Budget Profile

Year	Budget £
2022/23	938,967
2023/24	4,521,326

Revenue Budget

2.3 The Letting and Marketing Costs of £83,813 are a revenue expense and therefore will be charged to the General Fund Revenue Account. This Budget will be built into the Councils base budget as part of the budget setting process.

2.4 The Tenant incentives of £558,750 is expected to be rent loss rather than capital contributions. The rent loss will impact the General Fund as there will be less income, however it is expected that no rent incentives will be required, if there was any this will have to be funded from the Council's earmark reserves to mitigate the pressure of the revenue loss.

2.5 In addition to revenue costs, the additional economic growth with generate business rate income. This additional income is expected to be approximately £288k of which the Councils share would equate to £114k.

Financing the Project.

2.3 There is currently no capital receipts to part fund this project. Therefore, the total capital budget will be fully funded from borrowing.

2.4 The expected amount of borrowing is £5,460,293. With the MRP charged over 50 years the following table shows the impact on the General Fund Account regarding different interest rates.

Interest Rate	Total Interest pa	Total MRP pa	Total Charge pa
3.5%	191,110	107,065	298,175
4.0%	218,412	107,065	325,477
4.5%	245,713	107,065	352,778
5.0%	273,015	107,065	380,080

2.5 The assumption is that the Council will short-term borrowing for cashflow purposes during the build phase. Upon completion the Council will look to long term borrow. The current economic climate has seen interest rates from PWLB peak at over 5%, it must be stressed that current interest rates are higher than modelled, however, the expectation is that interest's rate should drop by 2024/25 and the Council will achieve its modelled rate of 3.5% to 4%.

2.6 The rental income from Childerditch will increase as the land is currently not generating any income. The income back to BBC is expected to be £505,855 per annum this is an increase of 100% as the land currently generate no income.

2.7 the Proposed Impact of the increased financing costs funded from the increased rental income is tabled below:

Table 3 – Financing Costs

Acquisition Financing Costs	2,323,167
Childerditch Financing Costs (4%)	325,477
Total Financing Costs	2,648,644
Revised Net Income	3,226,590
Surplus Income	577,946

2.7 This income will support the General Fund budget.