

Property Feasibility Report

Former Dairy Crest Depot, Dunsbury Way, Leigh Park, Havant, Hampshire, PO9 5BQ

November 2018



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1 Introduction

Southern Co-operative have instructed JLL to prepare a Property Feasibility Report in respect of the Former Dairy Crest Depot, Dunsbury Way, Leigh Park, Havant. We know the property well, having recently inspected, and have extensive experience of sales/lettings of industrial property within this region.

2 JLL

JLL are one of the world's leading property consultants, employing 45,000 people globally and with offices in every major city in the world.

JLL has the largest industrial and logistics group in the UK with 160 specialists across the country providing advice in the sales, letting, acquisitions, development and investment of industrial property.

The Southampton office of JLL have been involved in the industrial market across central southern England for over 20 years and have advised on numerous industrial estates on behalf of occupiers, private landlords, institutional investors and the public sector. The agency team in JLL Southampton are highly experienced, client focussed and are market leaders in the industrial sector.

3 The Property

3.1 Location

The property is located in Havant, Hampshire, which is 7 miles (11 km) north east of Portsmouth. The town benefits from good road links with the A3 (M) within 2 miles (3 km) to the west which links to the A27 and then M27 to the south and west and the M25 to the north. In addition Southampton airport is 24 miles (38 km) to the west. Havant also benefits from frequent direct rail services to London (Waterloo & Victoria), Southampton and Brighton



3.2 Description

The property comprises the former Dairy Crest Depot, and is adjacent to Southern Co-Operative funeral care, which we understand are both in the freehold ownership of the Southern Co-op.

The former Dairy Crest Depot we understand has been vacant since 2016. Part of this property was marketed in late 2016 by GVA, whereby Southern Co-op purchased part of the vacant property.

The property comprises a single storey flat-roofed 1950's warehouse building with 10' (3m) eaves height. The site offers integral offices to the front, a central warehouse and further store rooms to the rear.

The property is of brick construction with an asphalt covered flat roof over much of the property, with a profile metal sheet roof incorporating roof lights over the warehouse building.

There is car parking to the front and servicing is to the side directly from Fulflood Road. In addition, there is a large yard area to the rear, with covered storage areas, presumably used for vehicle storage.

See attached schedule of photographs in Appendix 1.

Accommodation

Area	Sq m	Sq ft
Office	195.8	2,108
Covered Loading	77.9	838
Warehouse	547.0	5,888
Total GIA	820.7	8,834
Site Area 0.73 acres		

3.3 Current State of Repair

It is understood the site has been vacant since April 2016. Please refer to the schedule of photographs in Appendix 1.

The property in general is in a poor state of repair. The main issues are summarised below. The purpose of this summary is to highlight what would be required to make the property habitable from a commercial perspective, and is not a Building Survey as such:-

Internal –

- The roof, much of which is flat, is leaking in numerous places. These leaks are focused around the roof lights
- The internal slab is in a poor condition, with vegetation growth in places
- Various internal chillers/store are now redundant and would require removal
- There are significant levels changes within the warehouse space
- There are 3 loading doors providing access to the warehouse area
- The office accommodation is in a very poor decorative state
- The power supply into the property would require modernisation

External-

- The site is well secured with large palisade fencing
- Loading bay 1.2m above slab, ideally would be removed
- Vegetation growth extension across the site and through external slab

In order to occupy this property extensive works would need to be undertaken, whether to secure a tenant or from an owner occupiers perspective. **It is envisaged circa £100,000-£150,000 is required to affectively refurbish this property and resolve the above issues, which is reviewed in more detail in section 5.1**

4 Market Analysis

4.1 Background to Havant Industrial/Warehouse

We have seen a steady and sustainable improvement in the commercial property market over the last 2 years. As a result of the improved demand in conjunction with a market with limited stock levels. There is particularly strong activity in the industrial and warehouse sector. The limited amount of stock will continue to underpin the market for some time as speculative development has been limited.

Havant lies to the Eastern end of the M27 motorway and provides easy access to Chichester to the East via the A27 and London to the North via the A3 (m). Southampton lies approximately 24 miles to the West and provides access to the Midlands via the M3/A34. Havant has a number of industrial / warehouse areas including Harts Farm Way, Solent Road, Southmoor Lane and New lane.

Havants local economy has been traditionally focused on manufacturing. As a result, the majority of the existing stock comprises older building dating back to the 1950's to 1970's.

The industrial/warehouse market is particularly restricted in Havant and its surround at present, with many estates becoming fully let. The amount of available property on the open market is now at a 5 year low. Year on year the industrial take up in Havant and surrounds ranges from 50,000-100,000 sq ft, however this significantly reduced last year to circa 50,000 sq ft due to the lack of available stock.

As the wider economy has improved demand from occupiers to either take on additional space or expand to large buildings has increased. In the context of a lack of supply this has helped pushed rental growth.

When considering smaller units such as the subject property the average lease length in the current market is 5 years, with tenant only break clauses after 3 years. Lease such as these currently command an incentive of circa 3 months rent free. Large units of circa 10,000 sq ft will command longer leases of 10 years, with tenant breaks after 5 years. Here the rental incentive could amount to 6 months rent free. However as the restriction of the available stock continues in 2018 and beyond these incentive packages will begin to reduce significantly. If a property is presented well from the outset of a lease, it is foreseeable that nil incentives will be achievable on smaller units. There estimated rental value (ERV) of these units is only limited due to the eaves height.

The following comparable evidence is of note-

Address	Tenure	Size (sqft)	Rent Achieved	Deal Date	Tenant
Unit 1500 Blueprint Industrial Estate, Portfield Road, Portsmouth PO3 5RW	LH	8,426	£7.50	01/03/2017	Undisclosed
Unit 5, Hilsea Industrial Estate, Limberline Road, PO3 5JW	LH	2,024	£10.00	01/03/2017	Undisclosed
Unit 12, Hilsea Industrial Estate, Limberline Road, PO3 5JW	LH	1,367	£10.00	01/03/2017	Undisclosed
1 Marshlands Road, Farlington, Portsmouth PO6 1ST	LH	2,116	£8.00	01/02/2017	MK (uk) Ltd
Unit D1 Railway Triangle, Walton Road, Portsmouth PO6 1TY	LH	10,255	£8.25	01/12/2016	Undisclosed
Unit 6 Voyager Park, Portfield Road, Portsmouth PO3 5SF	LH	10,896	£7.50	01/11/2016	Undisclosed
Unit 40 Alchorne Place, Portsmouth PO3 5QL	LH	9,126	£6.00	01/10/2016	Undisclosed
1 Aston Road, Waterlooville PO7 7HT	LH	12,500	£8.09	01/08/2016	Undisclosed
Unit M3 Hazleton Interchange, Horndean PO8 9JU	LH	13,853	£5.85	01/08/2016	Farm & Stable Supplies LLP
Unit 8A Solent Trade Park, Solent Road, Havant PO9 1JH	LH	3,019	£12.50	01/06/2016	Plumbink Plumbing Services Ltd
Unit 4a Kenwood Business Park, Havant PO9 2NT	LH	8,643	£5.26	01/06/2016	Allport Packaging
Unit J1 Hazleton Interchange, Horndean PO8 0JU	LH	4,203	£7.50	01/03/2016	Euro Trucks Direct

4.2 Supply

It was recognised in the Employment Land Review, dated December 2017, produced by Lambert Smith Hampton that 74% of Havants floorspace requirements can currently be delivered on existing employment allocations, the vast majority of which can be delivered at Dunsbury Park.

To date there is approximately 11.4% of industrial floor space available in the greater Portsmouth area (1,098,000 sq ft) which includes Havant. Of the available stock, only 338,079 sq ft is within Havant, with 211,589 sq ft being new build to be constructed.

4.3 Development Pipeline

As noted above Dunsbury Park is a key strategic employment site which will provide a significant pipeline for development going forward. Phase 1 has been completed with the delivery of the Fat Face distribution warehouse. The remaining phases can provide the following:-

- Outline consent for circa 70,000 sq m of employment floorspace,
- 5,574sqm of space can all be delivered to the west of Park Lane (phase 1)

We also understand a further 6.55 hectares of adjacent land to the north (extending to the A3) has been identified as a further area of opportunity for future employment growth beyond the end of the plan period.

Velocity, Standbridge Road, Havant is due to be constructed in 2018. This will deliver circa 100,000 sq ft of institutional warehousing for B1/B2/B8 uses. The units sizes range from circa 25,000-50,000 sq ft. These units are being speculatively built by the developer.

There is also an application for circa 30,000 sq ft of employment uses on New Lane, on the former Colt Refrigeration site. The scheme comprises a terrace of 10 units, circa 3,000 sq ft each, fronting New Lane.

5 Feasibility Summary

As noted above the industrial market has shown good improvement recently. Existing stock plays an important economic role in providing accommodation for both new and existing businesses. The provision of accommodation can either be ensured by refurbishing existing stock or building new quality accommodation. The purpose of this section of the report is therefore to explore the viability of this property in the above context.

5.1 Existing Property

As noted in section 3.3 of this report the current state of repair significantly limits the viability of the property to be utilised as it currently stands. However, this is not to say that these issues couldn't be overcome with refurbishment. The important question to understand that if these works were undertaken does the property still have a viable commercial future.

In addition to the obvious concerns with the condition of the property, such as the leaking roof and overgrowth, there are other fundamental issues that must be overcome which are summarised below: -

1. **Internal floor levels with the warehouse-** as can be seen from the internal photos within the warehouse accommodation the floor level changes three times, with significant steps in the slab. Of the 547 sq m warehouse 332 sq m (60%) is at the same level as Fulfood Road. These changes in level were assumed to assist with the sites use as a milk depot and loading crates onto the milk floats, however this significantly limits the useable space, as many occupiers need to use pallet trucks etc.
2. **High office content-** currently the office accommodation amounts to 35% of the total building accommodation, excluding the covered loading area. The majority of warehouse industrial users only required 5-10% office accommodation. Therefore, this accommodation would require stripping out. This part of the accommodation also sits on a high floor slab, which will need to be removed.
3. **Covered loading bay-** there is a large covered loading bay, on the southern elevation. This loading area sits 1.2m above the external yard area. This therefore significantly limited the access to the property directly from the yard. The only level access is from Fulfood Road which we understand is a public highway, which will need to be kept clear at all times.
4. **HGV's/Delivery Access-** as noted above the only level access is from Fulfood Road, which is assumed to be an adopted highway. Therefore there is no dedicated loading area for large vehicles.
5. **Internal eaves height-** the internal clear height is limited to 3.2m, rising to 3.4m. Eaves is crucial for industrial properties of this nature, whether it be for maximising storage with racking systems, or ensuring there is enough height to vehicle ramps to work on cars/vans etc

6. **Yard Area-** the property does benefit from a good size yard area which can be accessed from two gated entrances. Whilst these are suitable for smaller vehicles it would be difficult to bring large vehicles into this yard area without reserving off the public highway, which will be restricted.
7. **Location-** whilst there is some commercial use behind the site, the dominant commercial areas in Havant are focussed around New Lane and Harts Farm Way, due to the proximity to local infrastructure including the train station and A27. Dunsbury Way is located in the heart of Leigh Park which is a predominantly residential area. Manufacturing and logistics companies will be concerned with locating close to residential dwellings, and will prefer to be located in the established commercial areas.

The majority of the above can only be overcome by demolishing the building and replacing it with a more modern specification, which will be reviewed in section 5.2 below.

In the event the property was to be let as is stands it is felt the property would achieve a maximum annual rent of circa £30-35,000 per annum. **Given the limitations with floor slab, it is felt the only viable option at present would be as yard/external storage.**

An incoming tenant may be willing to take on the repairs to the roof etc, however this would need to be reflected in the lease terms. This is commonly achieved through a rent free period.

The extensive alterations and refurbishment highlighted above, in order to make the property lettable, would cost in the region £100,000-£150,000. **Given the extent of the required work it likely the owner/landlord of the property would receive a financial return from the property for 3 to 4 years.**

As noted in point 4.1 the majority of lease lengths into today's market offer the landlord 3 years term certain. Therefore, considering the costs involved in either refurbishing the property or securing tenant, by way of rent free, the **certainty of income generation is minimal. Therefore with no certainty of income/return a landlord is unlikely to invest in the property.**

It is foreseeable that an owner occupier would purchase the property for their occupation. However the condition and limitations of the property will still present viability issues. It is reasonable to suggest a property owner would not spend upwards of £100,000 on a property that has limited commercial value, and therefore would more likely demolish the property and start again.

In summary the **condition and configuration of the property present serious limitation to the financial viability** of the property. Any landlord would take a significant risk in refurbishing this property and is unlikely to see suitable returns on that investment.

Of more concern is the change on floor levels within the property, internal eaves height, and loading. These are fundamental elements to any industrial property and cannot be overcome with refurbishment. This unit as it currently stands does not fulfil the requirements of modern occupier/tenants and is therefore redundant.

It is recognised that older industrial properties such as this play an important role in the local economy in terms of providing affordable start up accommodation. However in its current condition new start up businesses will not have the available funds to refurbish the building, and there is little merit in a landlord undertaking these works.

5.2 The Site

The site extends circa 0.73 acres. It is common practice for developers to build schemes to a 40-45% site density. Therefore crudely speaking a site of this size could accommodate new industrial/warehouse buildings of circa 12,000-13,000 sq ft.

Based on a simplified development appraisal

ERV 13,000 SQ FT @ £9.00 per sq ft = £117,000 per annum, referring to the above comparables

Capitalised at say 8% = a GDV (Gross Development Value) of £1,462.5m

Build Costs at say £80 per sq ft = Total Build cost of £1,040m

Demolition £20,000

Finance 12months £50,000

20% Profit on cost £208,000

Professional Fees/Surveys/ Application @ 7.5% say £80,000

Agents/Solicitors Fees say £15,000

Using the above assumptions creates a negligible sum in terms of land value. Therefore any developer/owner occupier would draw the conclusion that the site is not viable for commercial uses.

The area surrounding this property consists mainly of the land from the redevelopment of the Procter and Gamble site. Mipa Paints occupy the majority of the large building to the north west. There is an extant permission on part of the site (APP/15/012533) for a circa 30,000 sq ft warehouse. **This site has remains undeveloped and demonstrates the viability issues around commercial uses in this location.**

6 Extent

This report is for viability purposes only and does not constitute a formal valuation. It is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its content.

7 Conclusion

The industrial/warehouse market has shown good signs of growth. However, it is essential that commercial properties can accommodate the needs of the occupier, in the right location, in order to be viable

This Former Milk Depot has unsurmountable issues with regards to the existing configuration and location, which **cannot be overcome with a simple refurbishment and therefore is no longer fit for purpose**. It is envisaged that should the property be marketed the void period to find a suitable occupier would be extensive. Properties of this nature can easily remain vacant for several years. Any extensive void period will cost the landlord empty business rates. For many landlords such an exposure to business rates would be too significant of a risk to take on property which is clearly not fit for purpose.

It has also been **ascertained that even if the property is demolished there is no financial viability to develop the site for industrial uses. Therefore, it is concluded this property has no creditable future as an industrial/commercial site.**

The site was previously marketed by GVA in 2016. If indeed the property was of interest to local occupiers/businesses it is felt they would have come forward in 2016.

The local borough does have extensive allocations of employment land which are well placed to accommodate the needs of occupiers in more sustainable schemes.

We would be pleased to discuss any of the issues raised within this report



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Appendix 1 : Photographs
