Basildon Town Centre Masterplan Evidence Base Report: Property Market Review

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PRIVATE & CONFIDENTIAL FOR

BASILDON DISTRICT COUNCIL

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1. Introduction and scope of work

The Basildon Town Centre Masterplan was adopted as a Supplementary Planning Document (SPD) in 2012. Much has changed in the time since its production including:

- Regeneration schemes in the town centre that have been/are being brought forward (Gloucester Park, Basildon Market relocation and the new College development, East Square)
- Significant changes in the economy and property markets (the changing nature of retail and leisure, new types of workspace and housing delivery)
- Development proposals that are being promoted by landowners and occupiers in the town centre
- A new planning context, including through the Local Plan

These changes mean that a review of the town centre masterplan is required to:

- Set out a clear vision for the town centre to encourage investment that is shared by stakeholders
- Guide regeneration activity by the Council and partner agencies
- Set out clear expectations for the form and quality of development proposals being put forward by landowners and developers, linked to achieving the aims of policies in the Local Plan
- Form a basis to assist with successful bids for external funding for the town centre

This paper forms part of the evidence base for the review of the town centre masterplan and analyses the market drivers that will influence the future regeneration and development of the town centre. These will be a key factor in setting the future direction of change in the town centre.

2. Socio-Economic Trends

2.1. Basildon Demographic Overview

Basildon is the largest borough authority in Essex, with a resident population of 185,862 in 2018, which represents 12.58% of the total Essex county resident population of 1,477,764, and which is projected to grow in the coming years to 210,000 by 2034 (Basildon Council Housing Strategy 2018-2023). The predominant age band in Basildon in 2017 was 'all persons aged 50 to 54' with 13,114 people out of the total population of 185,862, with a mean age of 39 years, compared with a mean age of 41 years for residents in the whole of Essex in 2011 and 40.5 across the UK.

The South Essex SHMA (2016) indicates that historic supply of new homes has fallen short of projected need. The Addendum to the South Essex SHMA (2017) has since recommended Basildon needs to deliver between 972 and 986 new homes per annum between 2014 and 2037 in order to deliver the necessary amount of housing to account for current and past demand.

This new annual delivery rate is an increase on past delivery as follows:

Table 1 – Average annual delivery rates

2011/12	2012/13	2013/14	2014/15	2015/16
650	650	120	680	820

Whilst the prevailing housing type in Basildon is owner occupier, with c.66% of the total housing stock being either owned outright or owned with a mortgage/loan in the 2011 Census, there are signs that the private rented market is growing in Basildon, where there has been an increase from 6% in 2001 to 11.1% in 2011 (Census data).

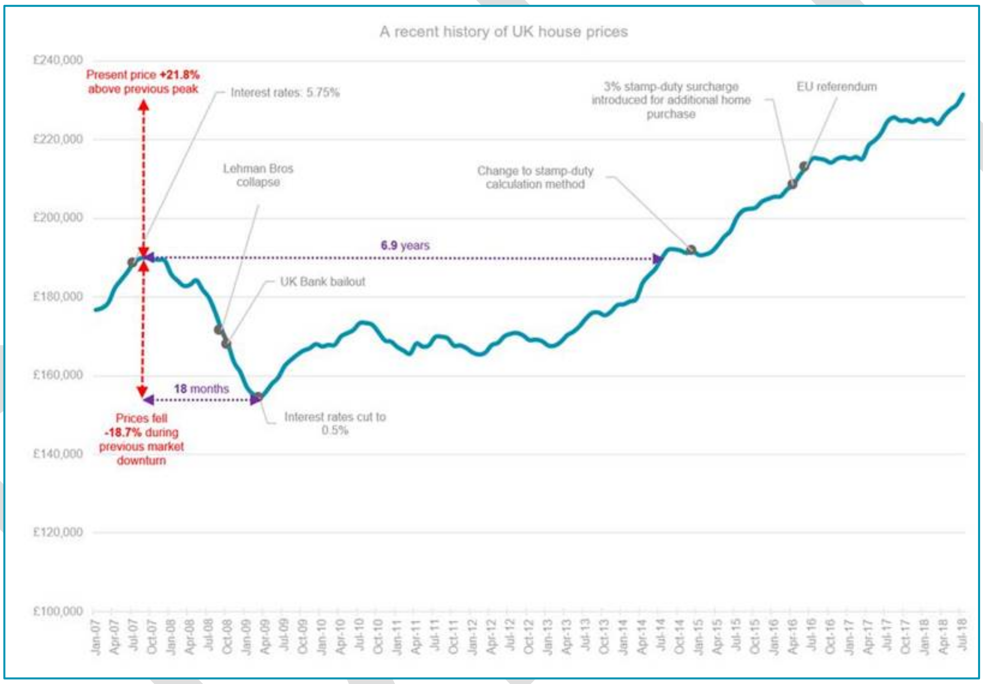
3. Residential Market Analysis

3.1. UK & South East Residential Market Overview

Following a sustained period of flat house prices after the 2007/2008 market downturn, the national market returned to house price inflation rates in the past 5½ years that were similar to those experienced in the decade running up to the last market downturn. More recently, however, political uncertainty and affordability ceilings being met has resulted in cooling rates of house price inflation. As a result, this has led to most forecasters failing to see house price inflation exceeding rates of wage growth in the near-mid term future, with flat prices expected during the Brexit transition period, followed by sub-3% rates of annual house price inflation.

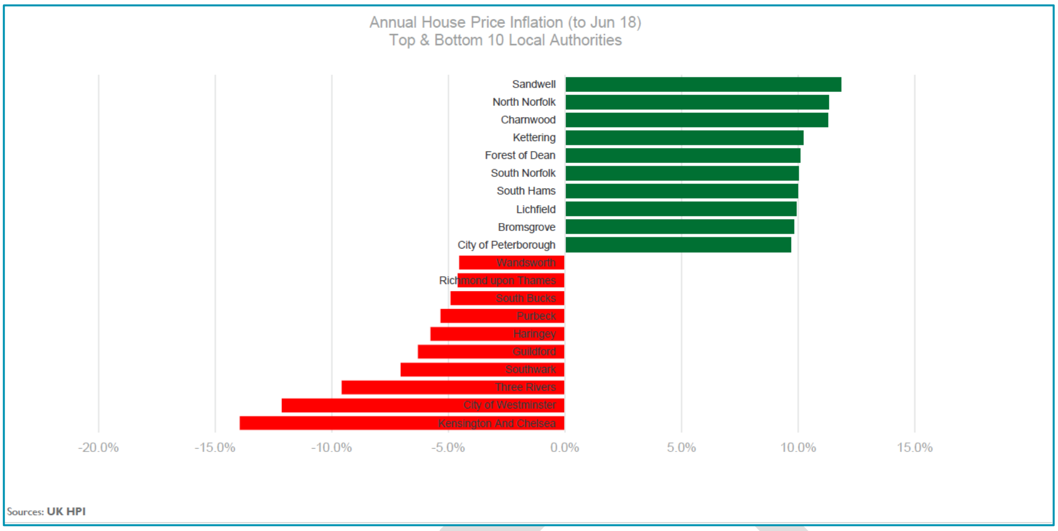
While risks of a market-downturn in the near future exist, home ownership positions are different to pre-2008. Although current house prices are widely recognised to be high, households are in a stronger equity position than in 2008, due to a sustained period of lower risk lending, and are also less likely to be on a tracker mortgage. Even in the event of a speedier increase in interest rates than is expected, a greater proportion of mortgages are now for fixed terms, so even in the event of an increased number of households being unable to service mortgage debt, the resulting volume of forced-sellers would be absorbed at a slower rate than was witnessed in 2008, keeping prices relatively steady.

Figure 1 – UK House Prices 2007 – 2018



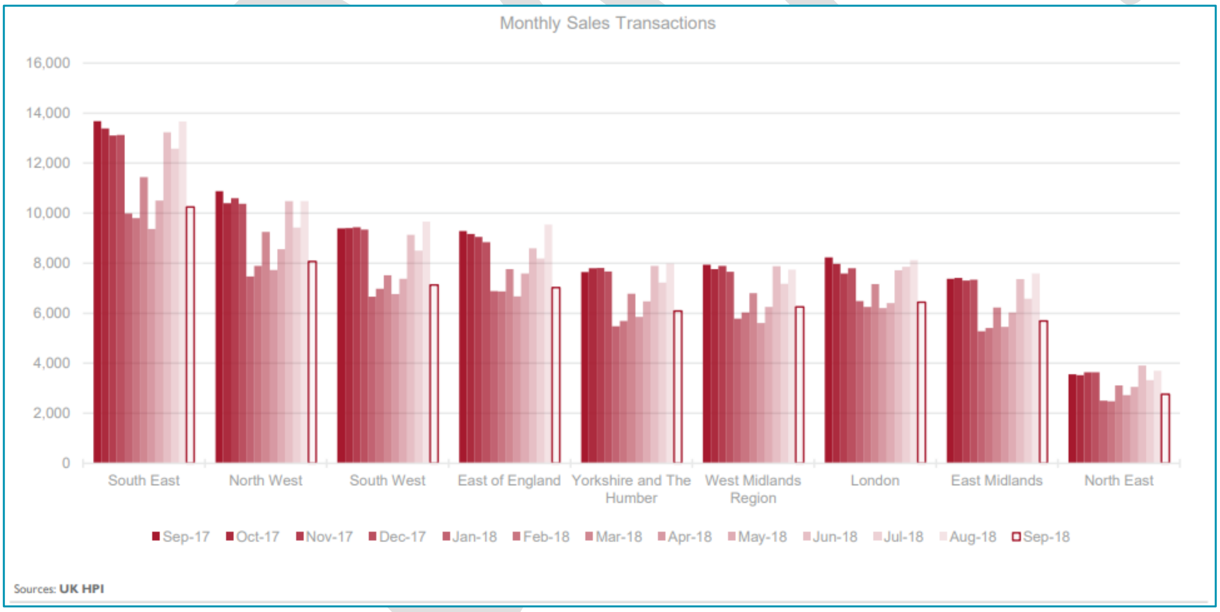
A drop in demand for high-value housing assets has been evident this year. Within England, of the 10 Local Authorities that experienced the greatest price falls this year, 9 of them have an average house price of £½m or higher. Yet the 10 Local Authorities experiencing the highest house price increases have an average house price of £300k or less. This can be seen in Figure 2 below:

Figure 2 – Top and bottom 10 Local Authorities in terms of annual house price inflation June 2017 – 2018



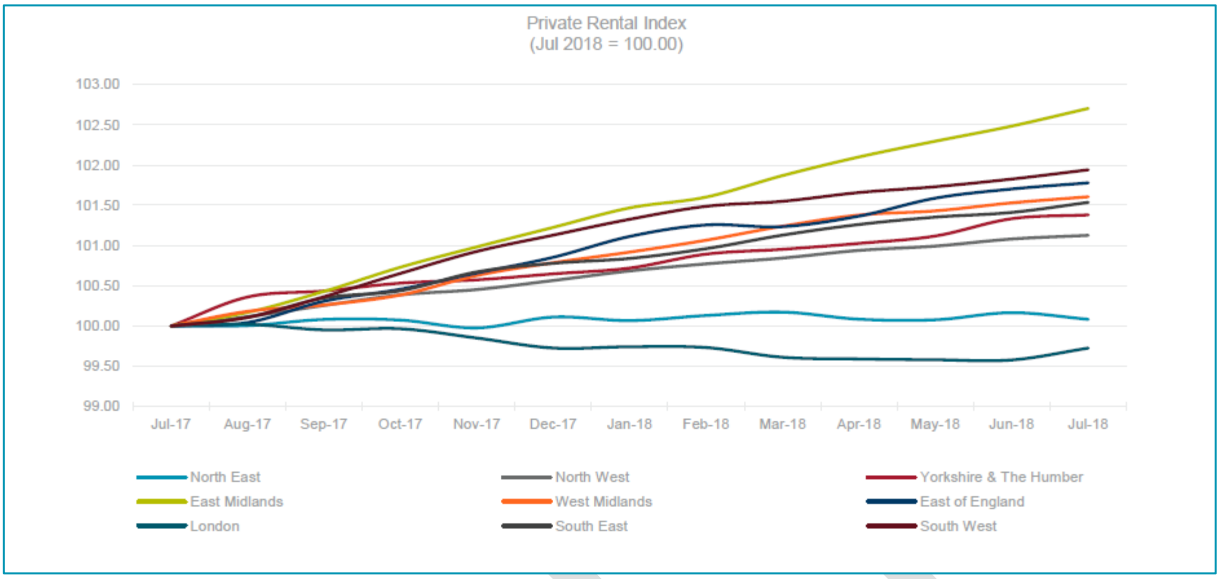
Uncertainty caused by the lead-up to the UK's exit from the EU appears to be showing in transactional data. The number of English home sales in September 2018 was 24% down on both the preceding month, and also the September 2017 figure. Regionally-speaking the fall in transaction levels (year-on-year) was largely the same, with the South East falling 25%, while Yorkshire & The Humber experienced the lowest fall at 20%. Although the South East had the second highest fall, it was still the top region for number of transactions. Figure 3 outlines the sales across UK locations from September 2017 to 2018.

Figure 3 – Volume of monthly sale transactions across UK regions



In terms of housing for rent, rental rates across the South East performed poorly in comparison to the rest of the UK. The South East recorded a rental rate fall of 0.25% from July 2017 to July 2018. This was the only region that recorded a negative growth across the UK. Figure 4 highlights the rental growth rates across the UK's regions:

Figure 4 – Rental growth rates across UK regions July 2017 – 2018



All these factors combine to show that there has been a definite recent cooling in the market, both on a UK-wide, as well as an East of England-specific basis. However, some of these market drivers also present opportunities for a town such as Basildon; for example, with property purchasers increasingly looking to cheaper parts of the market – particularly in areas that are commutable to London – Basildon has the opportunity to attract both new developers and new purchasers to the local area.

3.2. Basildon Market Overview

Basildon benefits from excellent transport links to Central London, with regular train services to London Fenchurch Street taking c.33 minutes. High house prices in London, coupled with a lack of space mean people frequently look to leave the city for surrounding towns within commutable distance; traditionally desirable areas such as Gerrards Cross and Beaconsfield have become almost as unaffordable as London, and as such there are opportunities for areas such as Basildon – if their development/regeneration is managed in such a way as to encourage people to leave London – to provide an increasingly appealing alternative given their connectivity and relative affordability.

House prices in the Basildon District Council area have fluctuated over the past year, with total growth of 2.36% since January 2017 across all property types. As can be seen in Figure 5, since the final quarter of 2018 there has been a downward trend in house price growth, which compares slightly unfavourably with the wider Essex market, which has experienced growth of 6.7% across the same period.

The average house sale price in the South East in June 2019 was £322,866 compared to Essex's average of £314,374 and the UK's average house sale price of £228,147. Basildon on the other hand averages £302,004 as of June 2019, so whilst being lower than the average house price across England, it does not compare positively with other local housing markets.

Figure 5 – Cumulative Housing Value Percentage Change

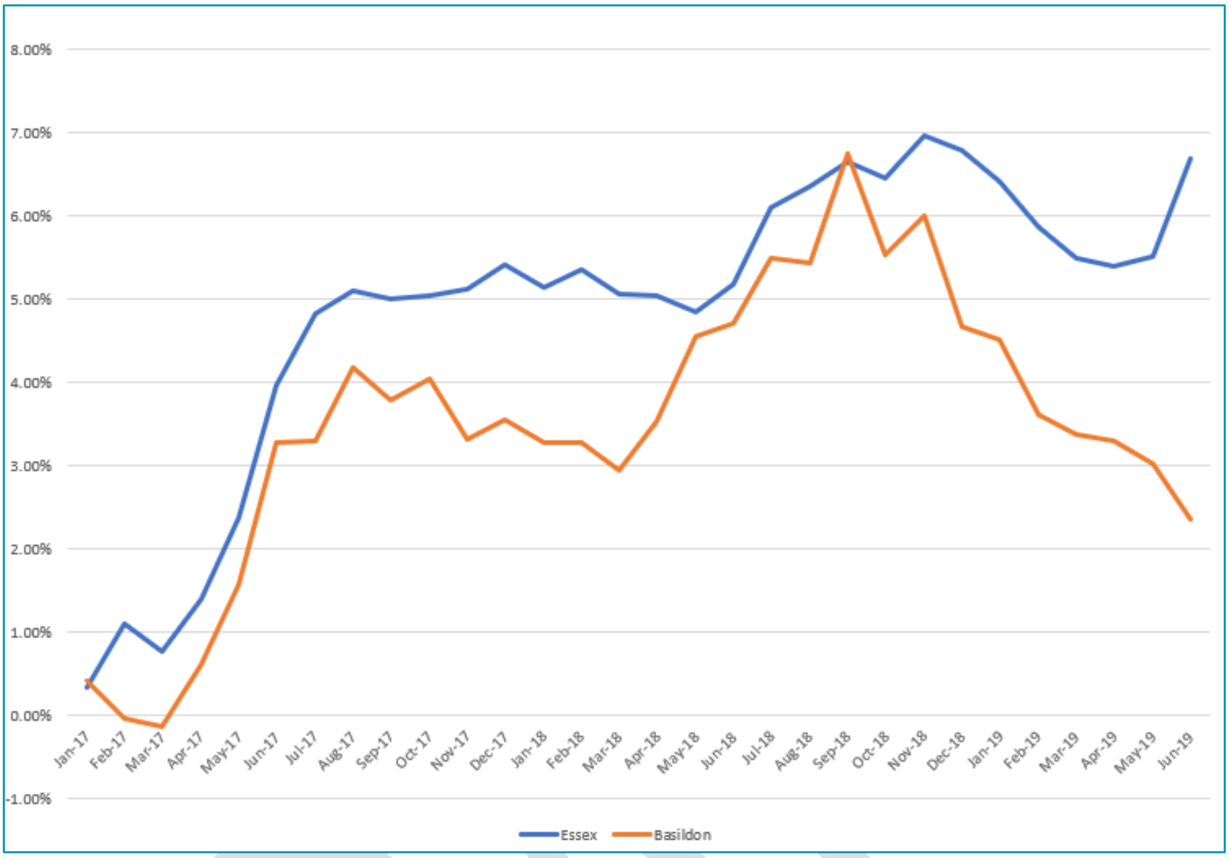


Table 2 outlines Basildon's housing market performance over the past 5 years in comparison to the wider Essex market.

Table 2 – Recent Housing Market Performance

Location	Average Price (All Property Types) Jul 2019	1-year Average Price Growth	5-year Average House Price Growth
Essex	£311,815	-0.22%	27.73 %
Basildon	£306,570	-1.61%	30.95%

Interestingly, Basildon has outperformed the wider Essex market in terms of house price growth over the previous five years, but appears to have been disproportionately affected by recent market uncertainty when compared with Essex as a whole. In spite of this higher growth in the preceding five years (although followed by the past year's reduction), the average house price in Basildon has remained lower than the Essex market as a whole, indicating that some of this growth could perhaps be attributed to the affordability of this location in comparison with – in particular – some of the other significant major centres of Essex.

Basildon's affordability on a price to earnings ratio aligns roughly with the majority of comparable areas; it is on average slightly more affordable than the wider Essex housing market, and slightly less affordable than both the East of England and South East. The key outlier within this dataset (excluding England as a whole, which has been included as a reference point) is London, where the higher median wages are unable to offset the significant increase in median house price.

Table 3 - Median House Price: Earnings Ratio

	Basildon	Essex	East of England	England	London	South East
Median house price	£295,000	£310,000	£283,000	£239,000	£467,500	£320,000
Average earnings	£27,853	£28,704	£29,128	£29,872	£38,154	£30,826
House price:earnings ratio	10.6	10.8	9.7	8.0	12.3	10.4

Basildon as a 'Commuter Belt' Location

According to research undertaken by Savills, 14% of new home buyers from across the UK were moving from London, with 39 per cent of them upsizing to a larger property. Most of this internal migration has taken place to areas surrounding London with easy commutes, and migration from London is undeniably high, with information from the Office for National Statistics showing that 340,500 people moved out in the 12 months prior to June 2018, which is the largest number since the ONS began collecting data in 2012.

The most popular destinations for these leavers are concentrated around London's commuter belt. These locations have been chosen due to the majority of these buyers continuing to work in London once they have moved, and as such, transport is of particular importance: this is a particular strength of Basildon, with rapid, frequent trains running into central London.

However, as with the Build to Rent ('BTR') market (which is discussed in section 4.10.1 below), London commuters typically prefer to move to areas that don't just have good transport links and cheap housing that permits them to upscale. Some of the additional requirements typically sought in a commuter location are as follows:

- High quality schools
- Lower density, and access to green areas
- High quality of amenities – shopping, restaurants and leisure

As such, whilst Basildon has some of the requirements for a commuter zone (lots of green space outside the town centre, rapid transport to London and four Ofsted rated "Outstanding" schools in close proximity of the town centre) it is missing others predominantly as a result of the current poor quality of the town centre environment and the associated range of activities and services offered in the town centre. Addressing these issues will be an important part of a strategy to achieve higher quality residential development in the area.

An example of a city in relatively close proximity to Basildon which has seen successful rejeuvenation of its town centre, and flourishing of the local housing market, is Chelmsford. Since Chelmsford was awarded city status in 2012, there has been significant investment in city centre regeneration, meaning it is now home to a John Lewis and a White Company amongst other retailers, as well as numerous high-quality food options. Residents, investors and developers have been drawn to the area by this combination of high-quality retail and good transport links into London, alongside the additional benefits of high quality schools, attractive period properties and green spaces. This vibrant, mixed city centre has resulted in a variety of people moving to the area, with young professionals drawn in by the numerous leisure offerings and making use of the quick train connectivity into London, and families being drawn in by the ability to upsize by leaving London.

Whilst Basildon doesn't yet boast the same quality of existing housing stock, and has a 'typical new town' style shopping area that seemingly discourages in and outflow from surrounding areas, rather than the more organic, permeable central area of Chelmsford, a sound town centre regeneration strategy coupled with a well considered redesign of the pedestrianised and car based routes into the town centre would encourage increased interest from both residential and commercial purchasers/ renters/ investors.

3.3. New Build Residential Sales Values

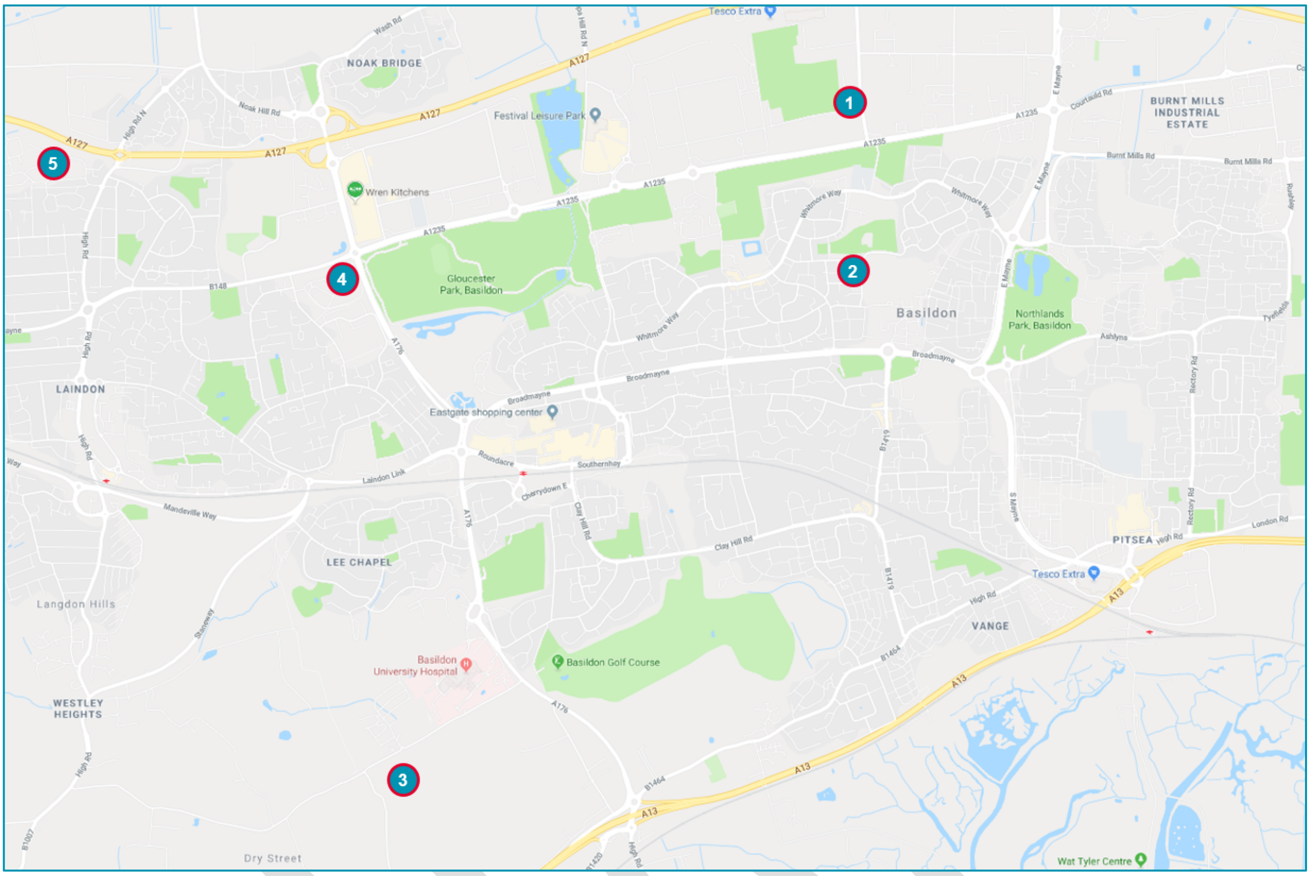


Table 4 – New build residential

Ref	Scheme Name	Average Value (£)	Average Size (psf)	Average Value (£psf)
1	Gardiners Park Village	£409,544	1,202	£341
2	Beechwood (Asking)	N/A	N/A	N/A
3	Westley Green	£467,053	1,239	£377
4	St Nicholas Mews	£422,627	1,185	£357
5	Dunton Fields	£334,249	1,038	£322

Gardiners Park Village

Gardiners Park Village is a development by Inland Homes, located approximately 2 miles north east of the Basildon railway station in an area in a location towards the outskirts of Basildon town centre, which is predominantly surrounded by industrial uses to the east or green land to the west. The development comprises 22 houses (5 x 2 beds and 17 x 3 beds), C&W's research suggests a minimum of 17 of these houses have been sold, for an average value of £341psf.

Beechwood

Beechwood is a development by Nu Living, a subsidiary of Swan New Homes, and is being delivered using modern methods of construction; Swan Homes have a factory in Basildon in which they are pre-fabricating homes to order. This is a development of 251 homes (of which 153 are rented or shared ownership, with the remaining 98 units available for private sale)designed to a purchaser's individual speicification and constructed as a modular housing system. This modular method has led to the opening of a new factory in Basildon, thus benefitting the wider economy outside of the housing market in addition to delivering new homes using an innovative approach that allows for a 50% shorter construction time and 10% reduction in construction costs.

Westley Green

Westley Green is a significant development – the outline planning permission is for 725 units – by Redrow, located approximately 1.3 miles to the south west of Basildon railway station. It effectively forms an extension to the existing conurbation, linked to Basildon by the A176, and is predominantly surrounded by greenfield land, albeit most of which will eventually form future development plots.

C&W's research indicates that a minimum of 103 units have sold since the start of 2018, and over the course of this period they have averaged a £psf value of £377psf.

St Nicholas Mews

St Nicholas Mews is a development by Redrow located approximately 1.2 miles north west of Basildon railway station. It forms an infill to an existing residential area predominantly comprising low-rise 1960s terraced housing, which forms the boundaries of the site to the west and south, and the site is bound to the north and east by the B148 and A176.

This scheme is now sold out, having completed in 2018, and the comparable evidence C&W has obtained indicates an average sales value of £357psf.

Dunton Fields

Dunton Fields is a development by Bellway homes located approximately 2.8 miles north west of Basildon railway station. This development forms an extension to the existing settlement, and as such is bound to the south by low rise terraced and semidetached housing, as well as being bound to the west and east by industrial units and to the north by the A127.

All homes at Dunton Fields are now reserved, and according to C&W's research it has achieved sales values of £322psf.

Summary

As can be seen from the provided comparable evidence of new developments in close proximity to Basildon town centre, there is little variance in the housing being delivered. The main developments typically comprise quite large properties – all the comparable schemes average greater than 1,000 sqft – and almost all these schemes deliver solely houses, with little provision of flats.

All of the identified comparable developments are located outside of Basildon town centre. The predominant focus appears to be on filling in greenfield areas towards the outskirts of Basildon with new housing estates which knit into the existing housing stock, with this supplemented by smaller scale developments making use of brownfield land and land in other uses, with these typically delivering similar housing typologies to the larger scale developments.

The lack of development in the town centre reflects a weak market at present where – despite advantages such as the commutable rail service to London – the quality of the environment negates against achieving residential values that would encourage higher quality new flatted development. This lack of flatted development in the town centre is further reinforced by the relative affordability of larger semi-detached and detached homes on the outskirts of the town centre and in neighbouring villages.

However, we have done some additional research of smaller flats in close proximity to the town centre, none of which are new build.

Table 5 – Flats – comparable evidence

Address	Size (sqft)	Sales Price	£psf	Transaction Date
87 Broadhurst Place	646	£235,000	£364	Oct-18
23 Broadhurst Place	700	£233,000	£333	Mar-19
41 Blake Avenue	700	£240,000	£343	Jul-19
79 Blake Avenue	646	£218,500	£338	Dec-18
11 Emerald Court	646	£215,000	£333	Oct-18
2 Thorrington Cross	840	£260,000	£310	Jun-19
25 Thorrington Cross	926	£290,000	£313	Jul-19
1 Olive Court	560	£173,000	£309	Oct-18
11 Olive Court	549	£175,000	£319	Mar-19
18 Olive Court	678	£205,000	£302	Jul-18
4 Olive Court	732	£207,000	£283	May-19
3 Cherrydown East	657	£232,000	£353	May-18
45 Cherrydown East	710	£207,000	£291	Jun-19
53 Cherrydown East	657	£225,000	£343	May-18
69 Cherrydown East	366	£200,000	£546	Nov-18
231 Cherrydown East	635	£215,000	£339	Nov-18
251 Cherrydown East	667	£225,000	£337	May-18
289 Cherrydown East	538	£181,000	£336	Feb-19
317 Cherrydown East	657	£220,000	£335	Oct-18
345 Cherrydown East	678	£215,000	£317	Aug-18
371 Cherrydown East	463	£195,000	£421	Jan-19
373 Cherrydown East	700	£223,500	£319	Apr-18
381 Cherrydown East	560	£195,000	£348	Feb-18
391 Cherrydown East	678	£219,995	£324	Jul-18
793 Cherrydown East	635	£225,000	£354	Aug-18
807 Cherrydown East	549	£185,000	£337	Feb-19
813 Cherrydown East	484	£170,000	£351	Feb-19
827 Cherrydown East	603	£180,000	£299	Nov-18
Average	638	£213,036	£334	-

Broadhurst Place/ Blake Avenue are addresses within a Barratt scheme that was completed in 2015, and the Cherrydown East addresses are from various phases of Morello Quarter, a scheme by Weston Homes completed through 2015 that comprises 425 apartments in total. The average £psf sales values within these flats are similar to those achieved in the outer town new build houses. This shows there is likely potential in and around the town centre for higher quality, smaller homes should the requisite quality of developer be attracted to the area and should appropriate development land be available. Based on the value evidence obtained, it seems a reasonable assumption that – if the land was available – this type of development would be more popular, and that the reason for the focus on less dense urban extensions above town centre flats is due to development land restrictions.

In terms of new build values further from the town centre, the averages achieved in all comparable developments on the outskirts of Basildon are relatively similar, with capital values sitting between £410k and £425k in the areas closer to the town centre, with this rising to £467k in Westley Green, which is located further from the town centre in an are skirting the green areas to the south of the town. Dunton Fields, on the other hand, is an outlier in terms of its lower values, seemingly due to it being located further from key transport links, as well as it being bound to the north by the A127 and to the east by a significant amount of commercial/industrial land.

3.4. Residential Schemes in the Planning Pipeline

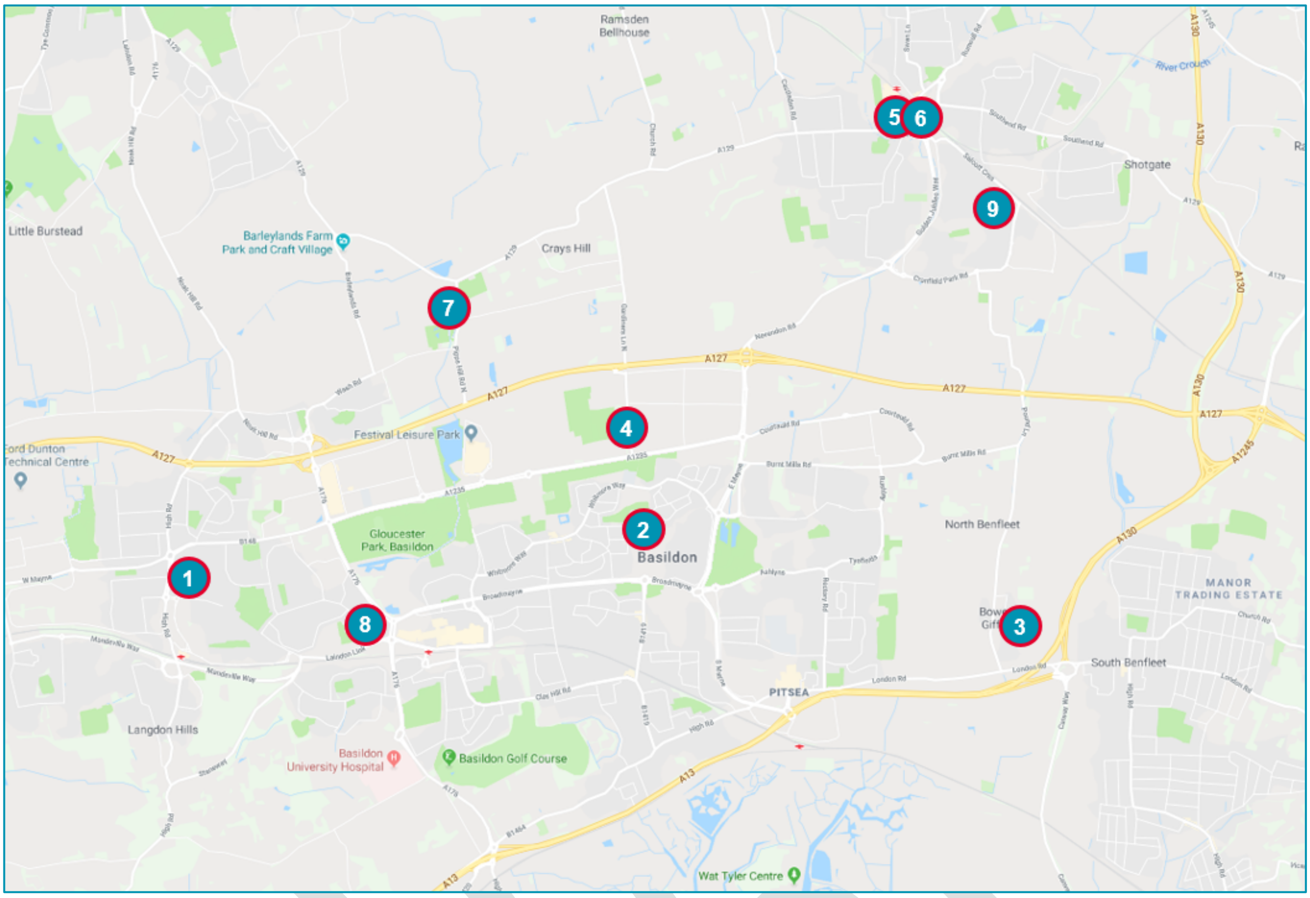


Table 6 – Planning pipeline – residential schemes

Ref	Site Name	Planning Ref	Developer	Units Proposed	Flats/ Houses	Granted
1	Laindon Shopping Centre, SS15 5TH	16/01594/FULL	Swan Housing	224	138/86	Sep-17
2	Craylands Estate & Former Fryerns School	16/00898/OUT	Swan Housing	525	17/508	Mar-17
3	Land Adj. 10 Alpha Close	19/00687/OUT	-	24	Houses	Jul-19
4	Corner of Gardiners Close & Gardiners Lane	17/01450/FULL	-	33	Houses	Jan-19
5	Rylands Hostel, SS12 9AT	17/01075/FULL	Family Mosaic	30	Flats	Apr-18
6	18 High Street, Wickford, SS12 9AF	17/00675/FULL	Sheet Anchor Evolve	18	Flats	Sep-18
7	Hardings Elm Road, CM11 2UH	17/00227/FULL	Redbourne	23	11/12	Feb-19
8	Youth Centre, Long Lynderswood, SS15 5AU	16/01134/FULL	Basildon Borough Council	20	Flats	Jan-17
9	South of Twinstead	16/00730/FULL	Carter & Ward	67	Houses	Jun-19

In compiling this information, C&W has sought to identify schemes of at least 10 units that have obtained planning permission since January 2017. As can be seen, there is a similarity between the development pipeline and the current development status of Basildon insomuch as there are not a huge amount of significant permissions coming forward, however there appears to be a slight change in the location of this development with the permissions obtained by Swan Housing (refs 1 & 2), which are considerably more central than the majority of large-scale developments in the area that are currently on the market for sale.

4. Commercial Market Analysis

4.1. Business Space

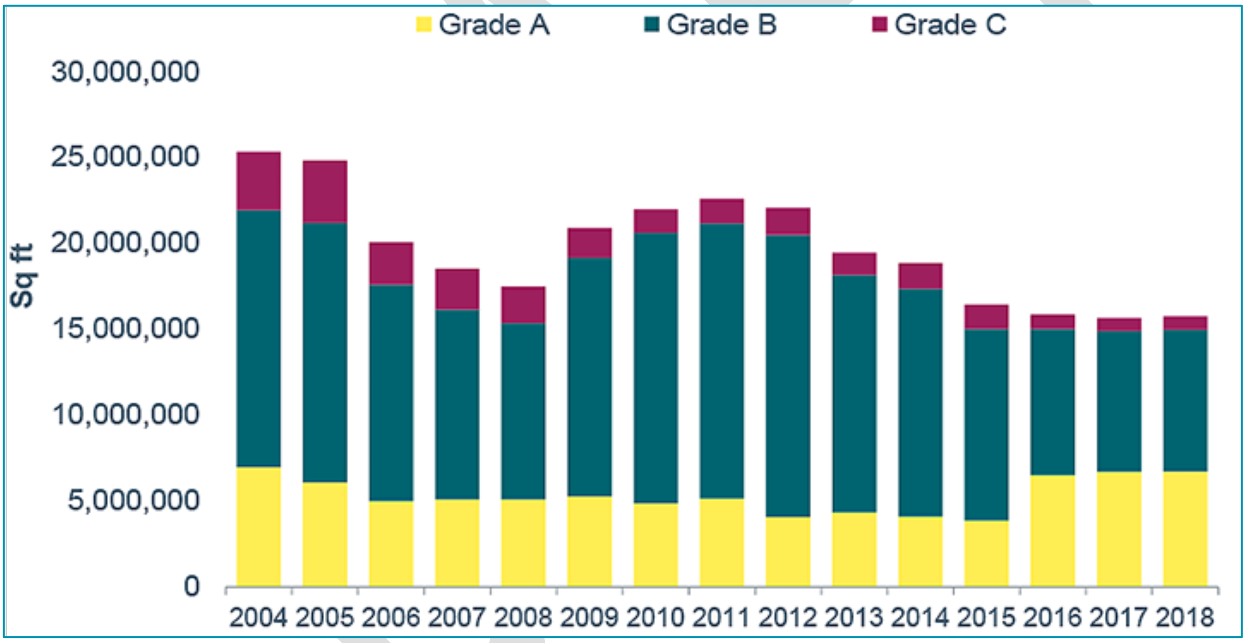
4.1.1. UK & South East Market Overview

The South East office market performed well in Q3 2018, with take-up significantly ahead of the 5-year quarterly average; the take-up in Q3 2018 was the highest quarterly take-up since Q3 2013. 70% of the transactions in this quarter were sized 5-20,000 sqft. Investment activity within the South East continues to perform well, with Q3 2018 investment volume totalling £703m (*Source: BNP*). The largest investor group in the South East office market across Q1-Q3 2018 was local authorities, who accounted for 46% of investment in the region, transacting c.£730m worth of office space. South East prime office yields compressed from 5% in Q2 2018 to 4.9% in Q3 2018.

The average deal size in the South East was circa 15,000 sqft, with the bulk of demand coming from smaller occupiers; 81% of all Q1 2018 deals were below 20,000 sqft and 65% of the total take-up was Grade A office space. Both the deal size and office Grade quality are in line with the prevalent theme of occupiers demanding smaller space but of a higher quality.

Figure 7 highlights that the South East office stock has remained stable between 2017 and 2018 at 15.7 million sqft. The development pipeline for new/ refurbished space is limited with only 0.6 million sqft under construction which is a significant drop from the 3.2 million sqft figure in 2016.

Figure 7: The stock of office space in Greater London and South East by Grade



(Source: Savills, 2018)

Major occupier trends include:

- Growth in the business services sector. Surveys of the large major industrial estates suggests that this sector accounts for over 33% of jobs and 29% of industrial floorspace.
- A growing demand for 'hybrid' premises where space is neither purely office nor industrial.
- A continued increase in demand for office space, especially to accommodate the expanding Central London business market. Q2 2018's leasing activity yielded a 64% quarter-on-quarter increase.

In recent years there has been a shift towards new office developments around town centres particularly with good rail links however this should be balanced against the exodus of tenants from less established locations in preference to established commercial business parks or town centres.

4.1.2. Basildon Market Overview

With c.2.3 million sqft of office space, Basildon is the third-largest Essex submarket, comprising just over 11% of the market. The town's economy is based in industry, and office-using employment within the submarket is mostly driven by the public sector. The largest occupier is Italian aerospace and security company Leonardo with a UK headquarters at the 162,000sqft Sigma House. Other noteworthy occupiers include supply chain service provider Alpi UK, which occupies about 110,000sqft at the 255,000sqft Alpi House, and Ford Motor Company, which has a large research and development facility in Laindon.

It has been almost a decade since the most recent office delivery in Basildon, and in that time, the vacancy rate has compressed significantly. Vacancy reached an all-time low in 2015, which allowed for strong rent growth through 2017. Growth, however, has slowed dramatically in recent quarters, falling negative in 2018 and staying flat in recent quarters. Sales volume picked up in 2015 with the sale of Sigma House as part of a portfolio and the recent high volumes are also attributable to Sigma House, which sold again in April 2018 for £28.35 million.

Within the overall Basildon picture, the town centre has struggled to attract business space occupiers in significant numbers as economic activity is focused on the A127 corridor and the quality of environment and range of amenities in the town centre are insufficiently attractive to businesses. The historic average vacancy in Basildon is relatively high due in part to the 253,000sqft former location of Ford Motor Company, Trafford House, which sat vacant from when Ford moved out in 2005 until the building's conversion to flats in 2015. In the four years since Trafford House's conversion into residential units, this vacancy rate has reduced to 0.5%, which is c.10.9k sqft of vacant office space in the town centre according to Costar data. This vacancy rate has stayed relatively flat since the removal of Trafford House from the town centre office market, as there has been little occupier movement in or out of the submarket, and as a result of this absorption of vacant stock through PDR.

Vacancies are likely to stay tight, since there is just one proposed office scheme, the 50,000sqft Phoenix Plaza, which we understand is unlikely to go forward before securing occupiers, having remained in the pipeline for c.10 years. The largest office availability in existing space as of June 2019 was 22,000sqft at Church Walk House.

The only significant office provision in the town centre itself is Southgate House on Market Pavement. Basildon's agents attribute this lack of office provision, as well as the lack of demand in the town centre, to the lack of parking available compared with outer Basildon, quality of environment and lack of breadth of amenities in the town centre. The quality of stock in the town centre is of low quality and the occupier market is dominated by smaller local companies seeking affordable floorspace and the public sector. These challenges are identified in studies carried out for the Council such as the Employment Land and Premises Study (Atkins, 2013).

Recent research has identified the opportunity to grow the following sectors in Basildon town centre[1]:

- digital, cultural and creative industries, benefitting from the town centre's accessibility, local amenities, the arrival of the College in the town centre and digital infrastructure. This could take the form of small to medium floorplates with flexibility in layout options as part of mixed use schemes.
- health technology, benefitting from the local density of population, proximity to health institutions and advanced manufacturing clusters. This could take the form of lab space provision within mixed use schemes.
- a level of professional and business services sector growth and SME space.

The study concludes that securing growth in these uses in Basildon town centre will be helped by investing in broadband/digital infrastructure, securing public trabsport investment and improvements, promoting mixed use development with a bigh quality of placemaking and delivering high quality retail and leisure facilities in the town centre.

The Grow-On Space Feasibility Study carried out by SQW for Essex CC in 2016 identifies the availability of grow-on space (space for small growing businesses with around 10+ employees) being an issue across the whole of Essex. There is no precise definition of grow-on space as the amount and type of space varies

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[1] South Essex Economic Development Needs Assessment (GVA, 2017)

according to the type of business, but the study used a size guideline of 100-300 sq m. Whilst the study identifies an imbalance between the potential demand and supply for grow-on space in Basildon, there remain challenges in delivering this space in the town centre. This is sue to reasons such as those noted in the study that there is an *"image problem with Basildon as an office centre which is largely a result of its industrial roots as it is not perceived as an office location and the nature of the town centre, which is not seen as an obvious location to office users. Potential occupiers looking for office spce in the Nort East quadrant of the M25 would most likely locate to Chelmsford or Brentwood, which are seen as more established office locations*".

Grow-on space schemes in the town centre are set out in the following table[2]:

Address	Size (sq m)	Tenure	Use	Grade
6-8 Southernhay, SS14 1EL	115	Leasehold	Office	New – refurb
Eastgate Business Centre, Southernhay, SS14 1EB	125	Leasehold	Office	New - refurb

4.1.3. Rent

Average rents have fallen in many quarters in the past year, following the trend seen across London and the South East. The average asking rent in the wider Basildon district of £16psf is approximately 6% lower than the average rent across Essex. The submarket average is more than 20% lower than the £20psf average rate in the most expensive submarkets, Brentwood, Chelmsford and Epping Forest, but is nearly 20% higher than the £13psf average in Maldon and Rochford.

Current asking rents range from the £10psf for 2,200 sqft at The Nevendon Centre to £18.50psf for 2,900 sqft at Phoenix House. The 50,000 sqft of proposed space at Phoenix Plaza is listed for £20psf.

There has been little in the way of space uptake recently in the town centre due to a lack of supply and demand, we have spoken with local agents who have verified that there is little market for office space in the town centre.

4.1.4. Construction

At approximately 2.2 million sqft, Basildon is a midsized Essex submarket, which comprises c.11% of Essex's total office inventory.

The newest office space is in a property of less than 15,000sqft, built in 09Q2 near the Laindon Rail Station. In terms of larger office space, the most recent delivery over 20,000sqft was the 117,000sqft Janus House, which was built in 2002. Renovations have not been common in the past 15 years with the last major refurbishment being that of the 287,000sqft Mayne House in 2003.

As of June 2019, there was nothing under construction or renovation in the submarket, but the aforementioned Phoenix Plaza has been proposed for over 10 years and is unlikely to be delivered until occupiers are secured – as of September 2019, the entire space was listed for £20psf.

4.1.5. Investment

As with local office space lettings, we have communicated with local agents, as well as researching various data resources – these sources report little recent market activity for investment in pure office space in Basildon town centre.

[2] Grow-on space feasibility study (SQW, 2016)

4.2. Retail Market Review

4.2.1. Overview

The ONS reported robust retail sales growth throughout much of 2018 (a year-on-year average growth of 2.5% compared with 2% during 2017). Coupled with this growth in retail sales has been the continued decline in footfall, highlighting the ongoing structural shift to online within the sector. A weaker economic outlook and Brexit uncertainty also took its toll on consumer confidence during the final quarter of 2018.

Despite ongoing uncertainty, the Consumer Confidence Index held stable during the first half of 2019. In part, consumer confidence has been underpinned by a robust labour market and stable inflation, however evidence of inflation picking up came through in Q2 2019, which could be a concern for consumer spending going forward.

For the occupier market, the structural changes have resulted in profit warnings and store closures (further store rationalisation is expected during 2019). This is likely to feed vacancy rates, which have been stable at 12%. These challenges have contributed to 2018 being one of the quietest years for retail investment in the UK for almost 20 years, with transactions totalling £7.3bn – a 50% reduction on 2017.

In that context, we highlight below the latest UK trends that are changing the function of town centres, as occupiers respond to consumer demands and adapt to the growth of online shopping.

Reducing store portfolios – We have seen a 10-year period of significant change and quite considerable consolidation from long-standing UK retailers. Large retailers are increasingly focusing on a smaller number of prime locations for their store portfolios (often referred to as polarisation), where they can have flagship-type stores and attract the most affluent and extensive catchments.

Changing store formats – The consumer is increasingly demanding, with high expectations for convenience, experience and personalisation. Shopping is becoming more leisure focused and activity based, which is reflected in new, flexible store formats and the greater importance of a differential offer.

The click-and-collect market – Retailers are increasingly incorporating click-and-collect services into their stores (a likely consequence of which is a reduction in retail space requirements). As well as often accounting for a substantial proportion of retailers' online sales, click-and-collect reduces 'last mile delivery' costs and can create additional sales volumes.

Improved digital capability – While the larger, multiple retailers have invested significantly in online channels, this is not necessarily the case with smaller independents and high street businesses. However, it is generally accepted that the online interest has created 'digital economy' demands and opportunities, which should be embraced by all retailers and businesses and, importantly, town centres if they are to be successful and compete.

Shared space – There is greater collaboration between retailers in terms of sharing space (for example, Sainsbury's and Argos), and between shopping centre landlords and their tenants in the provision of collection points and/or lockers. Innovative collection arrangements are also being introduced at public transport hubs and other public places (i.e. not on the traditional high street), in response to the convenience-based demands of consumers.

Pop-up uses – The UK's high streets have seen an increase in the number of pop-up shops and other uses in recent years. This concept enables retailers, usually independents but increasingly multiples and larger retailers, to lease space on a short-term basis. Markets and seasonal events have recently seen a surge in popularity and, by their nature, bring the animation and vibrancy that traditional high streets often lack.

4.2.2. Basildon Retail Market

Basildon town centre is the major retail centre in the Borough, comprising 1.15m sqft of retail space, albeit much of this space – in comparison with the average town centre – is vacant.

Consumer base indicators provided by PROMIS paint a picture of a retail area that has below average capacity to support retail based on the area's demographics; for example, it is estimated that the consumer base of Basildon town is a population of 140,000, which is below the Sub Regional Weak Town average, and the percentage of total retail spending completed through online transactions is estimated to be 17.7%, which is marginally above the UK average; this aligns with narrative we have obtained from local agents, who are in agreement that the high vacancy rate in the town centre is due in part to the growth of e-commerce.

Basildon is projected by PROMIS to see significantly above average growth in population wthin its retail market area (the area in and around Basildon which has direct access to the Basildon retail centre, which is based on the retail attractiveness of Basildon relative to competing retail destinations), which indicates there is the potential for growth to cater for this expanding market.

However, PROMIS's study is not directly related to the town centre, rather it includes the whole of Basildon, meaning the current threat to town centre retail from out of town retail areas such as Festival Leisure Park will continue in spite of the increase in consumer base should appropriate steps not be taken to make the town centre proper a viable retail option in the face of such competition.

Of particular concern regarding the vitality of the town centre is the recent (2018) losses of both Marks & Spencer and Toys 'R' Us, with local agents indicating that this has reduced the footfall of the town centre shopping areas, and subsequently the appeal of the town centre to prospective renters, as these were two major anchor tenants for the town centre as a whole.

Occupier Demand

Take-up in the Basildon submarket has significantly reduced throughout 2019. In the first half of 2019, c.34,000 sqft of space was transacted, reflecting 14 lettings, which is a decrease of 43% from the same period in 2018 when 17 transactions took place. This is in part due to a number of deals made in the first half of 2018 being in excess of 5,000 sqft. The submarket has also experienced a negative net absorption of 19,887 sqft over the 12 month period from October 2018. We judge these sharp falls to be a result of occupiers choosing to err on the side of caution given the current political and economic uncertainty.

Within Basildon town centre alone, there were just 6 lease transactions completed throughout the first half of 2019, ranging in size from 100 sqft to 2,166 sqft. These were all ground floor units let to local businesses with predominantly weaker covenants. (Source: CoStar).

According to Basildon Council's Authority Monitoring Report (2017-18), c.18% of units in the town centre were vacant. As a comparison, 10.2% of retail units on UK high streets stand empty, as of April 2019. The high vacancy rate in Basildon coupled with a sudden growth of low value uses, such as charity shops, indicates towards a poorly performing town centre.

These statistics paint a picture of a town which has fundamental market issues regarding the vibrancy of the town centre, and additionally, PROMIS calculates that the town centre suffers from an above average level of competition from out of town retail parks. As a result of these issues, there is a lack of desire from higher-quality tenants to move to the area, which when combined with an excess of available floorspace, creates an environment which is not conducive to the creation of a vibrant town centre which is able to attract more desirable tenants; effectively forming a self-fulfilling cycle that the town centre is struggling to break from.

Rents

Prime rents across the majority of UK towns and cities have reduced in recent quarters, reflecting the uneaseiness of the UK retail sector, a consequence of both a diversion towards ecommerce and the combined impact of rising costs and retailer's pressures to discount.

This shift in the market is biting into retailer profits and has resulted in sales volumes falling from 3.5% year on year in Q2 2019 to 4.7% year on year in Q1 2019.

According to local agents, the majority of occupiers taking up space in the town centre now are local businesses with poor covenants, such as independent barbers and clothing stores, in addition to discounted retailers.

Table 7 – Retail rental levels

Address	Date	Size (sq ft)	Tenant	Rent (pa)	Rent (£psf)	Term	Incentives
38 Southernhay	Aug-19	621	NKN	£18,000 (Asking)	£28.99	NKN	NKN

60 East Walk	Jun-19	694	NKN	£18,000 (Achieved)	£25.94	NKN	27.99% rent discount
Suite 12, 12 High Street	May-19	807	Wickford Foods	£20,000 (Achieved)	£24.78	NKN	20.02% rent discount
8 Riverside House	Mar-19	650	Bourn Hall Clinic	£12,500 (Asking)	£19.23	NKN	NKN
40-42 East Walk	Jan-19	2,166	Ponden Home Interiors	£60,000 (Asking)	£27.70	NKN	NKN
140-142 Clay Hill	Jan-19	896	Swinton Insurance	£14,509 (Effective)	£16.19	10 years	16.67% rent discount & 3 months rent free
7 Market Pavement	Dec-19	1,646	NKN	£32,000 (Asking)	£19.44	NKN	NKN
Suite 44b Eastgate	Dec-18	551	Papa's Crepes	£12,500 (Asking)	£22.69	5 years	NKN
12 Broadway North	Nov-18	1,172	NKN	£27,500 (Achieved)	£23.46	10 years	8.34% rent discount & 3 months rent free
2 Southernhay	Sep-18	6,300	Fit4Less	£69,300 (Effective)	£11.00	10 years	57.69% rent discount
				AVERAGE:	**£18.34**		

The average rents achieved in Basildon range between £15 and £30 psf, which would be further softened by the application of incentives. Furthermore, we have been provided with confidential letting evidence from a local agent, and these retail units have transacted at between c.£22 – £27psf, not accounting for rent free periods, which have increased in length since the first of these deals was completed in July 2018.

There is little direct comparable evidence in terms of new build retail units, due to an undersupply of new developments completed in Basildon town centre. Therefore, the available evidence tends to be for lower specification stock and does not provide a clear depiction of the achievable rent commanded by future retail developments.

The closest comparable was the leasing of 6,300 sqft at Unit 2 Southernhay, a development completed in 2011 located on the northern boundary of the town centre. Fit4Less signed a 10 year lease for £11psf, with a considerable discount of 57.69% after spending 62 months on the market. Data suggests that rental incentives are increasing in Basildon, with on average a 30.2% reduction applied to asking rents (Source: CoStar).

There is little available evidence for transacted lease terms, something agents consider to be reflective of the lack of demand in the area, although (as can be seen in the evidence obtained in the table above), smaller units in the town centre are more readily available and lettable, although this is likely to be to local businesses with poor covenants and discount stores, both of whom will do little to enhance the existing retail offering.

4.3. Leisure

Retail space alone is no longer enough to attract consumers to a town centre, with the importance of strong leisure 'anchors' increasingly evident. This reflects changing consumer habits and the demand for alternative, non-retail attractions and, ultimately, high quality experiences. Leisure also plays a major role in extending dwell times (and thus consumer spending) and supporting the night time economy. We have seen a notable shift from retail to commercial leisure uses (such as restaurants, cinemas and gymnasiums) within newer retail-led schemes and many town centres. While rents for leisure uses are often lower than those achievable for retail, shopping centre landlords recognise the value of providing leisure in order to create an all-round experience for shoppers (in some locations there has been much more of a convergence in values).

The leisure activity market has benefited from renewed interest over the past 5 years, with a shift in focus towards attracting adults as well as children in activities such as ten-pin bowling. It was predicted that £129bn will be spent on all leisure activities in 2018, which is an increase of 17% from 2013.

Basildon borough has four out of centre retail parks, and these parks currently provide a significant amount of competition to the town centre from a leisure perspective as well as a retail one as covered in section 4.2. The town centre is shorter on leisure facilities; the Towngate Theatre provides the majority of the area's cultural offering; the Eastgate Shopping Centre has a food court containing a Burger King, Nandos and a Taco Bell amongst others, and as such does not provide a particular draw to the town centre when these, or similar, restaurants are present in more vibrant centres nearby. Basildon town centre is also home to three larger gyms, and a limited supply of pubs and other nightlife, such as Wetherspoons, the Edge Bar and Kitchen and Reelsounds Karaoke and Disco.

The leisure offering available in the town centre is set to be significantly improved, however, with the securing of Empire Cinemas as an anchor tenant, providing a 10-screen cinema – including the biggest screen outside of Leicester Square – to East Square, in addition to six new restaurants, which will catalyse the development of a thriving night time economy for the town centre.

The wider Borough is home to some impressive leisure facilites such as Basildon Sporting Village, which is home to the only 50m swimming pool in Essex, in addition to a climbing wall, a gym and an athletics stadium amongst other sporting offerings, this is located outside the town centre, in close proximity to the Festival Leisure Complex.

The Festival Leisure Complex is home to a multiplex cinema, bowling alley, wakeboarding centre, play centre, nightclub, gym, and go-karting, in addition to restaurants and hotels. As a result, the majority of the Borough's existing – and undoubtedly varied – leisure facilities are located very close to, but outside of, the town centre. As these facilities are also in close proximity to each other, a significant draw away from the town centre is created, and one which is likely to provide an ongoing threat to the vitality of the town centre.

In addition to the retail parks within the borough, the Basildon Revised Local Plan (2017-2018) also cites competition from other retail locations further afield, such as Lakeside, Bluewater, Westfield Stratford, Southend on Sea and Chelmsford. These locations all provide some degree of leisure offer alongside their retail.

As such, Basildon has some significant threats from a variety of combined retail/ leisure centres both locally and further afield, and in order to increase the vibrancy of the town it is important that the potential for the new cinema complex to provide a 'kick start' to leisure-based regeneration is fully utilised through careful planning and design.

4.4. Hotels

UK & South East Market Overview

The hotel industry has seen a large number of transactions take place over the past few years; in 2017, investment in to hotels reached £5.4bn. Of this investment, 44% (£2.4bn) of it came from international purchasers. The industry is set to continue its promising form, with Starwood Capital acquiring seven Hilton hotels for £135m from Park Hotels & Resorts[3]. According to Boutique Hotelier "*overseas investment in the South East has been predominantly a result of portfolio deals with large South East components, such as Project Ribbon and the SACO Portfolio, which were bought by Israeli and Canadian investors respectively.*"

The South East was the second most active hotel market in 2018, behind London. The South East accounted for 20% of total UK hotel investment, with London accounting for 39%. Savills attribute this level of success to the diverse range of attractions from seaside resorts such as Brighton to historically affluent towns such as Canterbury.

The South East of England has seen 14,000 new rooms open since 2010[4]; Knight Frank attributes this growth to the expansion of Heathrow and Gatwick airports. Budget hotels continue to dominate the hotel construction market, with some 7,500 new rooms opening or set to open in the United Kingdom in 2019, which is a rise of 17% when compared with the previous year. London is the single biggest contributor to this market, with Knight

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[3] Fleurets, Market-intelligence, Q1 Leisure Sector Update

[4] Knight Frank – UK Hotel Development Opportunities 2018

Frank expecting this trend to continue, with approximately 10% of the c.15k hotels in the development pipeline between 2019 and 2023 expected to be delivered in “Outer London East”.

As with the leisure market, Basildon’s hotel supply is predominantly located in Festival Leisure Park, which contains a Travelodge, Holiday Inn and a Premier Inn. Whilst the town centre has some of the fundamentals one would expect to be conducive to development of a hotel (namely rapid transit time into London, as well as a vibrant local business market), as most of the borough’s business takes place outside of the town centre in various business parks, the hotels have responded by providing locations which are convenient for these parks – and the ease of access provided by various A-Roads. As such, most of the major hotel providers are already located within the Basildon area, and unless there is a fundamental shift in the focus of the town and Borough’s economy, it is likely that these providers will consider their current locations to adequately cover demand and not seek to open in the town centre proper.

Basildon Council’s Hotel Futures – Hotel Needs and Demand Study (Hotel Solutions, 2016) notes that hotel delivery in the town centre is not immediate and will need to be linked to the development of the town centre as a leisure and evening economy destination. This conclusion was underpinned by market testing with hotel operators carried out as part of the study. As well as more leisure and entertainment in the evening, operators were concerned about additional costs of parking in public car parks, the quality of the town centre environment and safety and security issues in the town for guests. Addressing these issues could creater the opportunity for a budget/limited service hotel to be secured as part of a mixed use town centre scheme in the future.

5. Wider Market Trends

5.1. Build To Rent

A combination of the introduction of Assured Shorthold Tenancies (ASTs), the subsequent emergence of Buy to Let (BTL) mortgages, increasing affordability barriers to aspiring home owners, and an increasingly transient population, have led to something of an explosion of the Private Rental Sector (PRS) in the previous 20 years, with latest estimates suggesting that over 20% of the English housing stock now sits within this tenure.

The PRS is consequently the UK's biggest provider of rented homes and the BTR market has seen a subsequent increase in delivery to reflect this, with the development pipeline growing almost five-fold (478%) in the UK over the past five years and the amount of operational build to rent stock increasing by 26% in the past year (Savills). The BTR sector comprises institutional investors with multi tenanted blocks built specifically to rent as opposed to individual units rented out by private individuals.

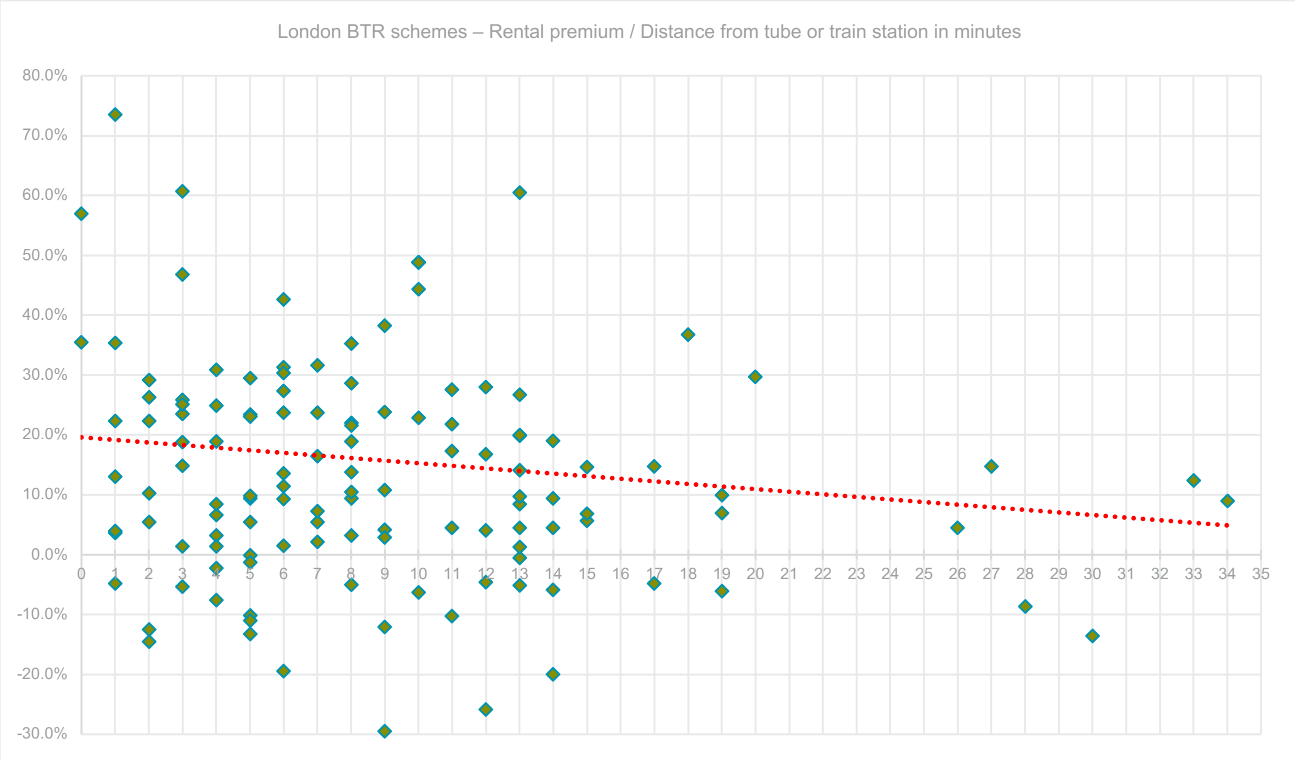
BTR can contribute positively to the build out rate of a scheme as well as its absorption rate and to the placemaking of the area. BTR has for example proven to be one of the major drivers for rapid rates of construction and absorption in Stratford and Wembley, helping to establish these areas as important and dense new areas of housing.

Despite the increasing influence of this development typology, and its positive contribution to both construction and absorption rates, it is important to note the specific types of market which can support BTR. The predominant activity has been in the cities and towns where densities and amenities/services support such a model. Typically, developers and operators are attracted to established town centres with good transport links, and usually BTR will only constitute a small element of the surrounding uses. The key elements to attract investors to a BTR development are:

- Good transport links nearby
- Established commercial centres
- Apartment schemes (usually 1 & 2 beds)
- High demographic of 25-34-year olds

To date, over 80% of investment in BTR has been in London and other major cities. What has become clear as the London BTR market has emerged is the importance of proximity to infrastructure, which in London's case is essentially a good transport hub. As we can see from Figure 8, the BTR 'premium' (rent achieved above local area benchmark) decreases rapidly as the distance from the main transport hub grows.

Figure 8 – London BTR Schemes: Rental Premium (y) vs. Distance in minutes from tube/ train station (x)



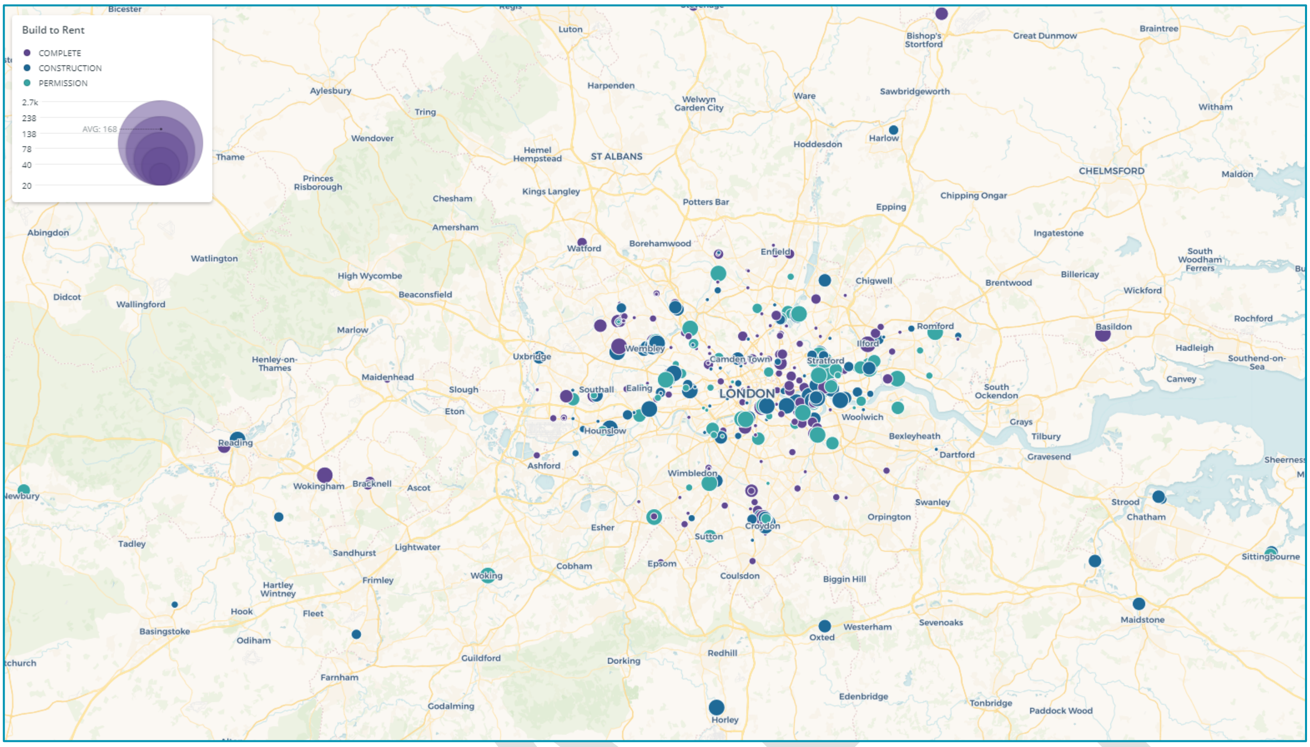
There are certain parameters regarding location of any new BTR products that need to be met for the development to be successful. An EC Harris report on the viability of the build to rent model reported that the most attractive areas for BTR developments were major cities, 'satellite towns' commutable to centres of employment and some university towns.

At present, and as illustrated in the Figure 9 map of BTR activity, there is a distinct lack of development in Essex in general when compared with Satellite areas within the M25 in particular, but also compared with other areas outside of the M25, such as Berkshire and Surrey. Incidentally, the main Essex BTR development has taken place in Basildon, with Trafford House – an office conversion rather than higher quality new build.

It is worth noting that a significant number of large scale BTR developments in the area outside the M25 are similar to Trafford House, insomuch as they are permitted development schemes rather than new build specifically constructed for rental rather than private sale.

The BTR market has seen a strong movement away from familiar locations into areas offering stronger rental yields, a growing target demographic, and strong future prospects. However, in its current state, Basildon town centre does not possess enough of the key elements described above to encourage a high quality or flourishing BTR market. However it does have the most fundamental and expensive to deliver – train connectivity into London – meaning that whilst C&W do not consider the town centre to be an appropriate location for BTR as it stands, addressing the lack of high quality retail and leisure options could lead to this market becoming a realistic option in the future.

Figure 9 – BTR activity in the South of England



5.2. Specialist Elderly Living (including Extra Care Housing and Retirement Living)

Extra Care Housing is broadly defined as a home providing the highest level of personal and domestic care for the elderly (Savills, 2017).

The UK population is getting older, with 18% aged 65 and over in 2016, compared with 15.9% ten years earlier (ONS); this trend is expected to continue upwards, meaning an increasing and currently relatively untapped new housing market is potentially being unlocked by changing demographics; only 3% of new housing which had been granted planning permission as of 2016 was specifically for 'elderly' or 'sheltered' accommodation (UK Retirement Living, 2016, Knight Frank), which is very low considering the changing age makeup of the UK population.

In the last few years, care and nursing homes have become a major source of investment, seeing a continued upward trend as both trading entities and fixed income investments. The most desirable type of product for investment appears to be established 250-500 bed place homes in good locations (Savills). Given the decreased focus on central living associated with jobs, care homes can be located in areas where conventional housing may well be less successful, as can be seen in Figure 10, using data provided by Knight Frank, which demonstrates that much of the delivery of retirement homes is taking place outside of London, with approximately 16% of the units in the pipeline being in the East of England.

The sector is increasingly being seen as a viable area to invest in; the market understands the aforementioned demographic trends and their meaning for the sector. Knight Frank states that funds are recognising the potential for long term income and several have recently made acquisitions in the area, and although it is becoming more established, it remains modest in size, with room for large scale growth. Some large-scale entrants to the market are summarised below:

- Legal & General established "Inspired Villages Group" in August 2017 to operate and develop elderly accommodation, and as of February 2018 had acquired 7 schemes in order to accelerate its development pipeline, and in November 2017 acquired "Renaissance Villages" from Helical PLC for £51 million.
- Axa Investment Managers acquired developer and manager of retirement homes "Retirement Villages Group" on behalf of investors.
- PegasusLife received a £500 million capital injection from US private equity fund Oaktree Capital in November.

- Residential Secure Income purchased a portfolio of retirement homes from Places for People for £40 million in September 2018

Table 8 – Private Retirement Housing Units in the UK

Location	Existing Housing	Pipeline Housing
Scotland	8,349	344
North East	3,202	79
Yorkshire & Humber	9,269	504
North West	17,373	321
East Midlands	8,102	262
Wales	4,259	125
West Midlands	14,543	893
East of England	19,494	1,482
South East	43,838	2,733
Greater London	11,876	737
South West	26,225	2,060

The existing demand and this form of housing does not overlap with other housing typologies, thus has the potential to increase delivery rates in an area. The ability of developers in this market currently appears limited for the mid/ lower value type of product, as given the abnormal market drivers for this typology, there is potential for Retirement Living and Extra Care to be included alongside market housing.

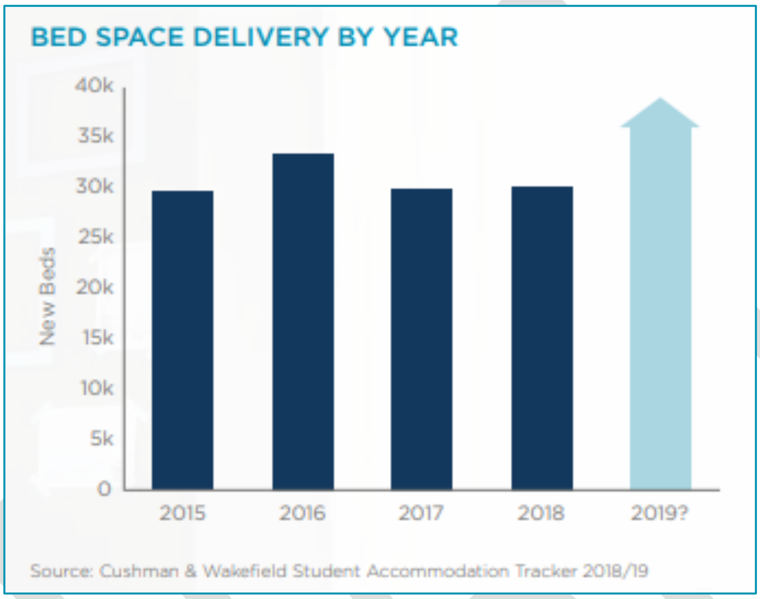
The growth in this market has been supported by policy in recent years; policymakers are recognising the need and benefits of retirement housing and reflecting this in policy. The Housing White Paper encourages local authorities to consider the age demographic of their communities and examine the need of different housing types.

As with the BTR market, it is C&W's opinion that Basildon town centre is currently not an appropriate location for retirement housing; this is predominantly because it does not have the principal market requirements for this typology. Should this lack of market drivers – such as safety and security, retail and leisure – be delivered, this could become an appropriate option in the future, although this particular typology may still be better suited to areas outside of the town centre proper, where there is more space and a less explicitly 'urban' fabric to the surroundings, such as the presence of green space.

5.3. Student Accommodation

Within the UK, there are now 627,000 purpose-built bed spaces available to students for the 2018/19 academic year. The weekly cost of a new university en-suite in 2018/19 is almost identical to that of a private sector bed (£144.76 vs. £144.87). The market continues to evolve apace, with 31,348 new beds delivered for this academic year, the largest increase ever observed by Cushman & Wakefield. New supply has again been dominated by private sector development in 2018, with 77% of all beds delivered by this part of the market. However as seen in Figure 6, this is lower than the 87% figure seen in 2017 and there is a significant pipeline of on-campus beds set to be delivered over the next three years.

Figure 10 – New student accommodation - beds delivered per annum



A new town centre campus is currently being delivered for South Essex College, although this is unlikely to create demand as it is targeted towards pre- university ages and is therefore serving the local market rather than people moving to the area to attend. As such, it does not drive student accommodation requirements.

It is C&W's understanding that there is no current planned Higher Education institute for, or in close proximity to, Basildon, that could drive demand for accommodation, and we are not aware of any requirements in the local market for this to change in the near future. As such, we consider it to be difficult to find a route towards student accommodation becoming a realistic option in the foreseeable future.

CUSHMAN & WAKEFIELD