



# EASTWOOD HOUSE

Chelmsford

FREEHOLD OFFICE INVESTMENT WITH  
SUBSTANTIAL ASSET MANAGEMENT POTENTIAL



## EASTWOOD HOUSE, GLEBE ROAD, CHELMSFORD CMI IQW

### FREEHOLD OFFICE INVESTMENT WITH SUBSTANTIAL ASSET MANAGEMENT POTENTIAL

#### INVESTMENT SUMMARY

- Freehold office building located in Chelmsford city centre, in close proximity to the railway station and the city centre retail and leisure facilities. Significant recent development in the immediate vicinity including the redevelopment of the adjacent former Marconi factory and improvements to the railway station.
- High quality building constructed in 1993, comprising approximately 119,654 sq ft of air-conditioned offices and 411 parking spaces (a parking ratio of 1:291 sq ft) on a landscaped site of 5.4 acres.
- Entire property let to the secure covenant of BAE Systems Surface Ships Limited, a wholly owned subsidiary of BAE Systems plc, until 26th November 2021.
- Current income of £3,190,361 per annum, exclusive (£26.66 per sq ft).
- The lease incorporates annual rental uplifts in line with uncapped RPI. The next uplift is on 27th November 2017.
- 71% of the net office area is underlet to Royal Bank of Scotland, Aon Benfield, Capita Business Services and Linden Homes, with a further 17% under offer to Anglia Ruskin University.
- The property offers outstanding medium term asset management potential to create one of the city's leading multi-let office buildings, coupled with the release of the car park for high density residential development.
- The surface level car park has been identified by Chelmsford City Council as potentially being suitable for high density residential development. In response to this, the vendor has produced an indicative scheme showing how up to 185 residential units could be accommodated on the site, whilst retaining office car parking at 1:500 sq ft.
- Offers are invited in excess of £35,000,000 (Thirty Five Million Pounds), subject to contract and exclusive of VAT, reflecting a net initial yield of 8.54% rising to c.8.87% in November 2017, with annual upward only reviews thereafter in line with RPI.



## LOCATION AND SITUATION

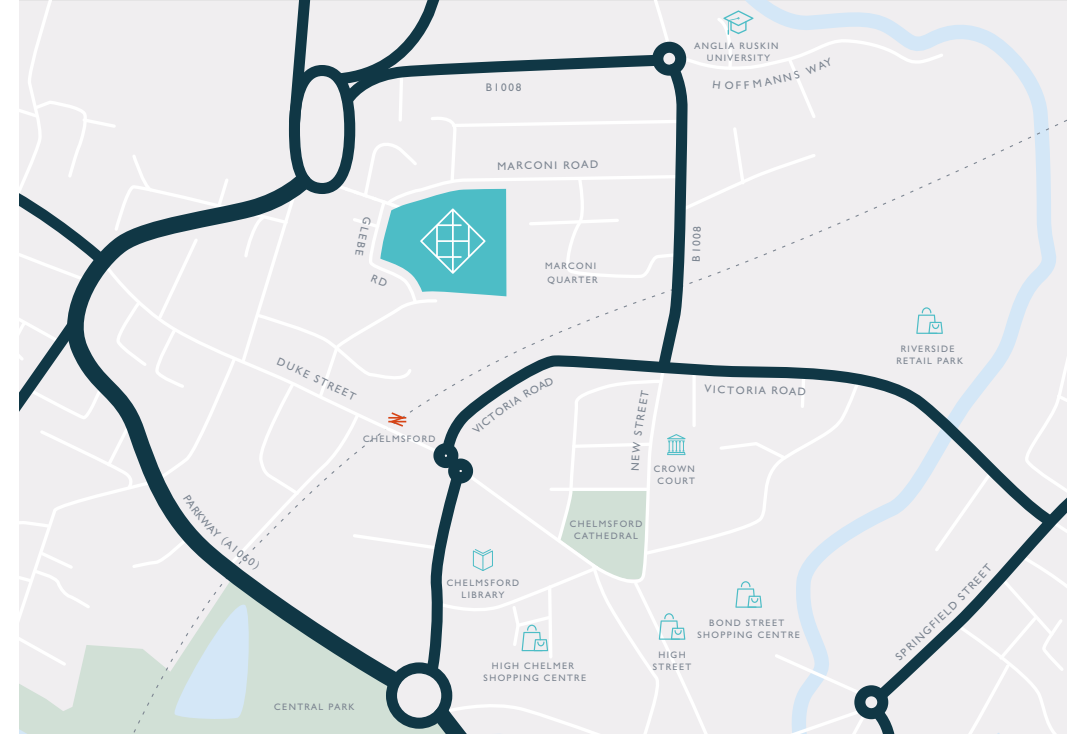
### GLEBE ROAD, CHELMSFORD, CMI IQW

Chelmsford, which was granted City status in 2012, is the administrative centre for the county of Essex and a significant business location. The city is located 31 miles north east of central London, to which it has outstanding rail connections with up to 7 trains per hour and a fastest journey time of 34 minutes.

The city has a thriving financial and business community with more than 8,700 registered businesses. Banking, finance and business services account for 25.6% of total employment in the city, compared with a national average of 17.5%. Research and development is another established business sector. Major employers include Aon, M&G, Lloyds Banking Group, IFDS, BAE Systems, RSA, MS Amlin and Grant Thornton. Current unemployment is estimated at only 1.1%, compared to the national average of 4.5%.

The city's current population is 170,000, which is forecast to increase to 192,000 by 2022 as a result of significant investment in the city's infrastructure – including the construction of 3,600 new homes at the Beaulieu Park development on the north-eastern edge of the city.

Chelmsford is a major shopping and leisure destination within Essex, with two covered shopping centres complementing a vibrant and attractive High Street. Its stature has recently been significantly elevated following the opening of the Bond Street Shopping Centre in September 2016. This open streetscape scheme boasts a 120,000 sq ft John Lewis department store and 20 retail units as well as a large leisure element comprising a 5 screen Everyman cinema and new restaurants.





## COMMUNICATIONS



Chelmsford stands adjacent to the A12 dual carriageway, which connects with the M25 motorway (Junction 8) within 12 miles to the south-west, before continuing towards London. Eastwood House has direct access to the A1016/A1060 Parkway, the city's principal arterial route, which connects to the A12 within 4 miles, via Essex Yeomanry Way.

DESTINATION	DISTANCE
M25 (J8)	12 miles
Central London	31 miles
Cambridge	48 miles
Stansted Airport	19 miles
City Airport	35 miles



London Stansted Airport is 20 miles to the north and can be accessed by car within 35 minutes. Stansted is the fourth busiest airport in the country, accommodating 24 million passengers per year, serving 35 countries and 170 destinations. London City Airport, serving around 50 destinations at present, can also be reached within 45 minutes.

Heathrow and Gatwick airports can be accessed via the A12/M25/M23 within 58 miles and 60 miles, respectively.



Chelmsford sits on the Great Eastern Main Line and benefits from outstanding high speed connections to London Liverpool Street. The standard journey time is 34 minutes and there are typically 7 trains per hour to London.

Additionally, the station provides 4 services per hour to Shenfield, with a journey time of 12 minutes. From 2019, Shenfield will form the eastern terminus of the new Elizabeth Line (Crossrail).

Key journey times from Shenfield are as follows:

DESTINATION	DISTANCE
Canary Wharf	40 minutes
Bond Street	48 minutes
Heathrow Airport	76 minutes

As a consequence of the outstanding service, Chelmsford Station is the second busiest station in the East of England, accommodating more than 8 million passengers every year. In 2013, £3.2 million was committed to a programme of major improvements to the station area. The first phases (improvements to the public realm around the station entrance and an enlarged station frontage with new ticket hall and retail units) have already been completed. The final phase, the Mill Yard Gateway, is due to complete in April 2018.



Eastwood House is within a 5 minute walk of Chelmsford railway station, with the city centre retail and leisure facilities immediately beyond. Pedestrian access will be further enhanced in April 2018 on completion of the Mill Yard Gateway, which is the final phase of a substantial series of works improving pedestrian and cycle connections from the railway station to the commercial areas to the north of the station, Eastwood House, the Marconi Quarter and Anglia Ruskin University. This involves the replacement of the pedestrian tunnel under Mill Yard, which forms the main pedestrian access between Eastwood House and the station with a bridge, opening up a major new pedestrian and cycling route to the station and the city's prime retail area.



Current pedestrian access



New pedestrian access - Completes 2018





MARCONI QUARTER

CHELMSFORD CATHEDRAL

HIGH STREET AND BOND STREET RETAIL

HIGH CHELMER SHOPPING CENTRE

COUNTY HALL

CHELMSFORD RAILWAY STATION

ESSEX COUNTY CRICKET CLUB

PARK CENTRAL



A1016

A1016





## DESCRIPTION

Eastwood House is a modern, purpose built office property constructed in 1993. The property is arranged on lower ground, ground and two upper floors of reinforced concrete frame construction, with brick elevations containing double glazed aluminium framed windows and curtain walling. Two large light wells provide additional natural light to each office level and a glazed atrium provides further natural light to the main circulation areas.

The office specification includes raised floors, suspended ceilings incorporating mineral fibre acoustic ceiling tiles and recessed fluorescent lighting, and VAV air-conditioning. The central core area contains a ground floor reception and seating area, accessing a passenger lift and accommodation staircase serving the upper floors. A further passenger lift is located in the south-east core of the building. There is a goods lift at the rear of the building serving all floors. Separate male and female WC facilities are provided to each core at each level. The main entrance core has a dedicated disabled/visitors WC at ground floor level.

The lower ground floor provides a combination of secure car parking and accommodation incorporating a range of offices, computer laboratories, server rooms and storage.

There are three roof terraces at first floor level, accessed from the office areas.

With single, open plan floors of between 37,000 sq ft and 39,500 sq ft, combined with a 7.5 metre planning grid, Eastwood House has the largest office floorplates in the city, offering outstanding flexibility of sub-division, allowing the building to compete for the broadest possible range of tenant requirements. The ground floor has a finished floor to ceiling dimension of 3.20 metres, with the 1st and 2nd floors having 2.76 metres.



## ACCOMMODATION

The approximate net internal floor areas of the property are as follows:

FLOOR	DESCRIPTION	SQ FT	SQ M
Ground	Reception	1,010	93.83
Ground	Offices	39,537	3,673.11
First	Offices	37,298	3,465.10
Second	Offices	38,502	3,576.95
Lower Ground	Offices/Computer Laboratories	2,379	221.02
Lower Ground	Computer Laboratories	928	86.21
<b>Totals</b>		<b>119,654</b>	<b>11,116.22</b>

The lower ground floor contains 113 delineated car parking spaces. There are 269 delineated car parking spaces externally at ground level. Additionally, the rear service yard accommodates 29 further parking spaces. The total is 411 spaces, representing a car parking ratio of 1 space per 291 sq ft of net internal area.

Additionally, part of the lower ground level is currently fitted out as ancillary storage (of c.9,800 sq ft). If this area were stripped out, it would be possible to increase the number of car parking spaces by up to 25 spaces.



## TENANCY

The entire property is let to BAE Systems Surface Ships Limited (Company Number: 6160534) on full repairing and insuring terms until 26th November 2021.

The current rent is £3,190,361 per annum, exclusive (£26.66 per sq ft overall).

The rent is subject to annual upwards only rent reviews calculated in accordance with the Retail Prices Index (uncapped). The next rent review falls on 27th November 2017.

The rent review will be assessed in line with the Retail Prices Index figure for October 2017 (the most recently published index figure prior to the review date). The latest available RPI figure is for September 2017. In the event the Index does not change before the review date, the rent will increase to £3,314,458 per annum, exclusive. Assuming the Index does not increase between now and October, and using HM Treasury's Consensus RPI forecasts thereafter, the net income to lease expiry would be:

DATE	RPI (PA)	RENT (PAX)
Initial	n/a.	£3,190,361
11/2017	n/a.	£3,314,458
11/2018	3.30%	£3,423,835
11/2019	3.00%	£3,526,550
11/2020	2.90%	£3,628,820



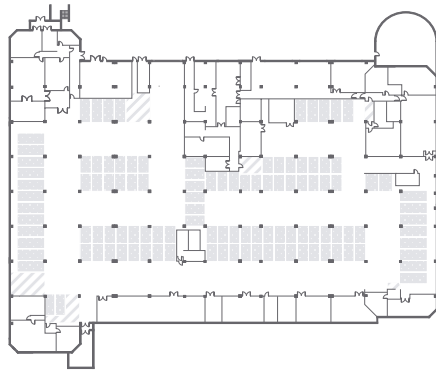
## SUBLEASES

Since 2006, BAE Systems has progressively reduced its headcount in Eastwood House, and has sub-let surplus office space. Earlier this year, the tenant vacated its remaining office accommodation and now only occupies the lower ground floor, as well as running the reception function. The current sub-lettings can be summarised as follows:

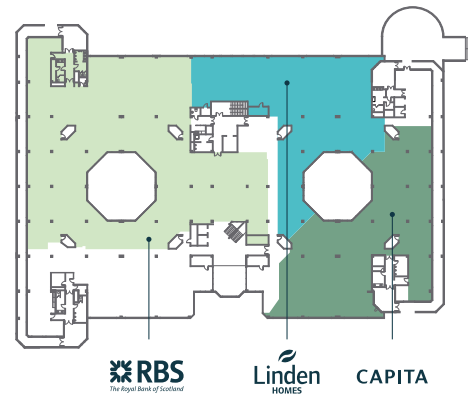
SUB-TENANT	D&B RATING	DEMISE	APPROX. FLOOR AREA (NIA)	CAR SPACES	CURRENT RENT		EXPIRY	COMMENTS
					PAX	PSF		
Capita Business Services Ltd	5A1	Ground (South, Front)	8,507 sq ft	28	£161,633	£19.00	01.11.2021	-
The Royal Bank of Scotland Plc	5A1	Ground (North, Rear)	15,910 sq ft	28	£302,290	£19.00	01.11.2021	-
Linden Limited	5A1	Ground (South, Rear)	8,444 sq ft	28	£164,658	£19.50	01.11.2021	-
Anglia Ruskin University (under offer)	O1	First (North)	20,719 sq ft <sup>1</sup>	70	£372,942 <sup>1</sup>	£18.00	25.11.2021	Under offer. Terms TBC
Aon Benfield Ltd	5A1	First (South, Front)	5,148 sq ft	17	£93,951	£18.25	01.11.2021	Fixed uplift to £100,386 (£19.50 psf) on 09.07.2018
Aon Benfield Ltd	5A1	First (South, Rear)	5,965 sq ft	20	£105,879	£17.75	01.11.2021	Fixed uplift to £116,317 (£19.50 psf) on 09.07.2018
Aon Benfield Ltd	5A1	First (South, Middle)	5,466 sq ft	18	£99,754	£18.25	01.11.2021	Fixed uplift to £106,587 (£19.50 psf) on 09.07.2018
Aon Benfield Ltd	5A1	Second (South - part)	16,234 sq ft	54	£296,271	£18.25	01.11.2021	Fixed uplift to £316,563 (£19.50 psf) on 09.07.2018
Aon Benfield Ltd	5A1	Second (North)	18,840 sq ft	63	£348,540	£18.50	01.11.2021	Fixed uplift to £367,380 (£19.50 psf) on 09.07.2018
Aon Benfield Ltd	5A1	Car Parking	-	20	£24,000	-	Licence	-
Capita Business Services Ltd	5A1	Car Parking	-	10	£10,200	-	Licence	-
Linden Ltd	5A1	Car Parking	-	10	£12,000	-	Licence	-
<b>Totals</b>			<b>105,233 sq ft</b>		<b>£1,992,118</b>			

Note 1 (proposed letting to Anglia Ruskin University): Figures are approximate. NIA and initial rent subject to measurement on completion of separation works.  
 Note 2: The headlease requires that all sublettings are contracted out of the security of tenure provisions of the Landlord & Tenant Act, 1954.

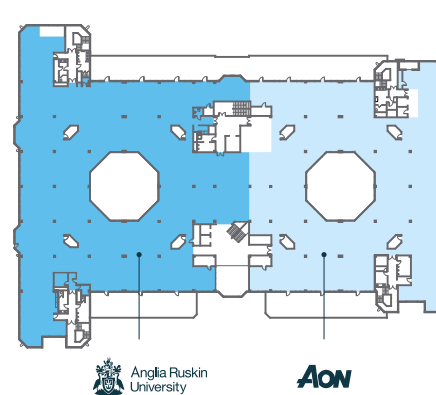
### LOWER GROUND FLOOR



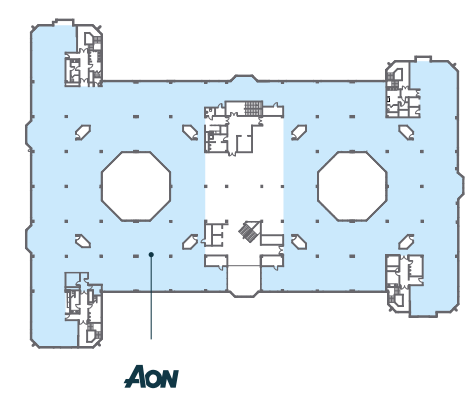
### GROUND FLOOR



### FIRST FLOOR



### SECOND FLOOR







## COVENANT INFORMATION

BAE Systems Surface Ships Ltd is a wholly owned subsidiary of BAE Systems plc. Its principal activity is the designing, building, commissioning and support of naval vessels. Current contracts include the Queen Elizabeth Class aircraft carrier programme and the Type 26 Frigate, both for the Royal Navy.

The tenant's accounts for the last three years are summarised as follows:

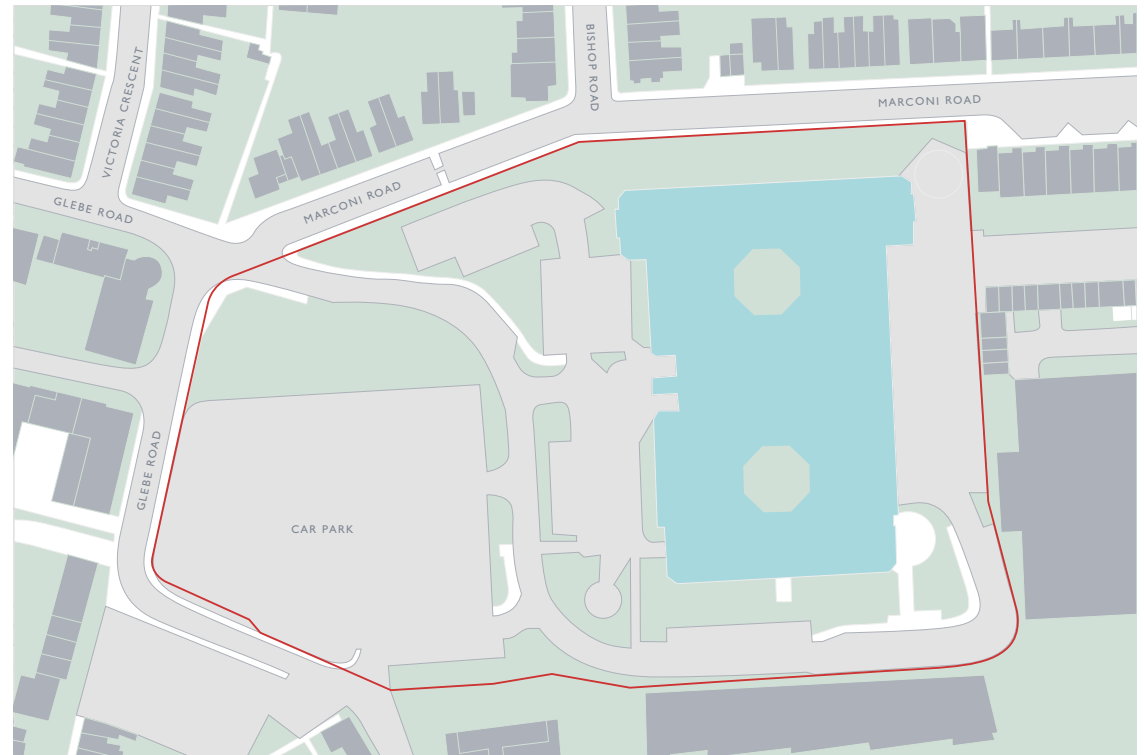
YEAR ENDING	31 DEC 2016	31 DEC 2015	31 DEC 2014
Sales Turnover	£1.51 billion	£1.37 billion	£1.27 billion
Pre-tax Profit	£52.77 million	£32.57 million	£70.20 million
Tangible Net Worth (Liabilities)	(£134.69 million)	£37.22 million	£348.70 million
Net Current Assets	£699.08 million	£663.21 million	£350.59 million

The movement in the Tangible Net Worth figure in the latest accounts is the result of changes in the pension scheme liabilities – resulting from the transfer of schemes into the company, and an updated actuarial review. The parent company, BAE Systems plc, administers various pension schemes for the group's employees, with the liabilities being apportioned across the group. The accounts note the pension fund shortfall is not intended to be realised in the short term.

The parent company, BAE Systems plc is one of the world's leading defence companies, employing 83,000 people in over 40 countries. For 2016, the company reported sales of £19 billion.

## TENURE

The property is held Freehold.



Note: The extent of the property as shown is approximate, and for indicative purposes only. A plan showing the Legal Title can be provided on request.



## ASSET MANAGEMENT AND DEVELOPMENT POTENTIAL

### OFFICE BUILDING

Since 2006, BAE Systems has progressively reduced its headcount in Eastwood House, releasing surplus accommodation to the sub-letting market. As set out in the schedule above, approximately 84,514 sq ft is currently underlet, with a further 20,719 sq ft under offer. All sub-let accommodation has been let in unrefurbished condition, with the sub-tenants undertaking refurbishment and fitout at their own cost. This explains the relatively low rents secured. The calibre of occupiers attracted to the building is first class and, on expiry of the headlease (or earlier by negotiation), we consider there is outstanding potential to create at Eastwood House one of the city's premier multi-let office buildings – and to drive the rents upwards to match other prime buildings in the city centre.







## CAR PARK SITE

In 2016, the vendor instructed its professional team to investigate the residential development potential of the car park. A key part of the brief has been to retain a car parking ratio for the Eastwood House office of 1:500 sq ft, in line with typical Chelmsford city centre office parking ratios. The architects, Aukett Swanke, produced outline proposals for a development of c. 185 residential units, including up to 14 townhouses, and this was presented as a pre-application submission to Chelmsford City Council by the vendor's planning consultant, Deloitte, in September 2016.

In July 2017, Chelmsford City Council published its "West End Vision" document, which is intended to form the basis for development policy for this area of the city, for formalisation in the new Local Plan. Eastwood House lies within the West End area and the surface car park is referred to specifically. The document states that the car park site has potential for high density residential development, with 3-5 storey massing and a 6 storey building on part. We consider the massing shown on the pre-application submission broadly matches the aspirations of the West End Vision statements.

Copies of the West End Vision document, Aukett Swanke's Pre-Application Submission and a Planning Report prepared by Deloitte can be viewed on the project data site, access to which can be provided on request.



## MARKET COMMENTARY

### CHELMSFORD OFFICE MARKET

Chelmsford is the second largest office location in Essex, with a total office stock of c.2.2 million sq ft. As the County Town of Essex and an established satellite of the City of London, the office market mainly serves the administrative and financial sectors. Total current vacancy is estimated at 190,000 sq ft, with only c. 30,000 sq ft of Grade A availability. In recent years around 150,000 sq ft of the city's poorer office buildings have been converted to residential use, thus reducing vacancy levels across the market as a whole. In addition to the sub-lettings at Eastwood House, we are aware of the following recent lettings:

COMPANY	ADDRESS	SIZE SQ FT	RENT (£PSF)	DATE	LEASE TERM
Savills	Parkview House, Victoria Road South	9,000	£22.00	July 2017	t.b.c.
Tees Law	Parkview House, Victoria Road South	5,500	£22.00	August 2017	t.b.c.
t.b.c.	Marlborough House, Victoria Road South	3,105	£24.00	August 2017	10 year lease, with 5 year break. 6 months rent free plus 3 months if break not exercised.
Fidelius Financial	Greenwood House, New London Road	1,700	£23.00	June 2017	5 year lease. 4 months rent free.
Birkett Long	Faviell House, Parkway	9,247	£22.00	June 2016 Subletting	Sublease from QBE.

### SOUTH EAST INVESTMENT MARKET

Total investment in the South East office market in 2016 was c.£2.9 billion, well ahead of the long term average of £2 billion and the five year average of £2.65 billion. Investor demand has remained strong in 2017, and the market has been characterised by a lack of high quality investments coming to the market, as owners have been reluctant to sell such attractive product. In spite of this, c.£2.3 billion was transacted in the first 9 months of the year, with predictions for the full year being in excess of £3 billion. Prime yields currently stand at 5.25%.

Recent investment transactions in the South East office market include:

DATE	ADDRESS	TENANT	AREA (SQ FT)	WAULT (YEARS)	PRICE	YIELD
Sept 2017	Ealing Gateway, Ealing	Multi-let	86,226	5.0	£50.03m	3.93%
Aug 2017	3 Roundwood Avenue, Stockley Park	Volga Dnepr/Verifone	43,110	4.3	£21.40m	6.24%
Aug 2017	Pinnacle, Reading	Multi-let	41,721	1.9	£14.10m	6.50%
Aug 2017	61-63 London Road, Redhill	Multi-let	51,839	9.8	£25.00m	5.50%
June 2017	Hays House, Guildford	Multi-let	18,250	4.1	£9.85m	4.95%
Apr 2017	Lucidus, Watford	Multi-let	51,246	1.1	£16.50m	6.20%
Feb 2017	Orion Gate, Woking	Multi-let	51,340	8.7	£21.72m	5.90%





## MARKET COMMENTARY

### RESIDENTIAL DEVELOPMENT MARKET

Chelmsford's demographic profile indicates its inhabitants are younger than the national average (a high proportion of 22-44 year olds) and more highly skilled and, thus, have typically higher incomes. Accessibility to central London, the high quality retail and leisure facilities of the city and the attractive environs have proven powerful attractions – and the population has grown. This has prompted the construction of a number of new residential developments in Chelmsford city centre, the largest of these being the Marconi Evolution scheme, immediately to the east and south of Eastwood House where around 350 homes will have been provided by the time the final phase is completed in 2018. We understand capital values achieved in this development and elsewhere in the city are up to figures in excess of £400 per sq ft.



## EPC

The property has an EPC rating of E. A copy of the EPC is available on the project data site.

## VALUE ADDED TAX

The property is elected for VAT and VAT will therefore be chargeable on the purchase price if it is not possible to arrange this transaction by way of the transfer of a going concern.

## PROPOSAL

Offers are invited in excess of £35,000,000 (Thirty Five Million Pounds), subject to contract and exclusive of VAT, reflecting a net initial yield of 8.54% rising to c.8.87% in November 2017, after allowing for costs of acquisition of 6.77%.

Based on the latest HM Treasury's Consensus RPI forecasts, a purchase at the asking price would show the following net yield profile to expiry:

DATE	RPI (PA)	RENT (PAX)	NET YIELD
11/2018	3.30%	£3,423,835	9.16%
11/2019	3.00%	£3,526,550	9.44%
11/2020	2.90%	£3,628,820	9.71%



## FURTHER INFORMATION

For further information or to arrange an inspection to view, please contact Christopher Eccles, Matthew Joyce or Harry Fell at:

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INVESTMENT • DEVELOPMENT • ASSET MANAGEMENT

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