



S Prosser Esq
St Modwen Properties
Ground Floor
Unit 2 Landmark Court
Leeds
LS11 8JT

Email: nick.atkinson@dtz.com
Direct tel: 0191 223 5714
Direct fax: 0191 223 5799

Your ref:
Our ref: NA/SC

05 January 2011

Dear Steve

Faverdale 58, Darlington

As requested, I have set out below a brief history of activity to date and competing sites as a base for a meeting with Mike in a few weeks time in Leeds.

Background

DTZ were instructed in October 2006, at which time we reported on competing schemes in terms of existing buildings and competing development sites in the Region.

Speculative development of large warehouse buildings over 100,000sqft has been limited in the Northeast. Only 4 such units have been delivered outside the tax driven Enterprise Zones and their performance has been weak. Brief commentary as follows:

- Wynyard 360, Wynyard Park – 300,000sqft completed September 2006. Sold January 2009 to EDS for conversion to a data centre.
- Drum 3, Chester le Street – 263,000sqft completed January 2008 and still available.
- Faverdale East, Darlington – 100,000sqft completed February 2007. Let June 2009 to Coldstore Logistics on very competitive terms
- Cherry Blossom Way, Washington – 100,000sqft completed Nov 2006 and still available.

The closest development to your site is the Faverdale East which comprised 4 units from 20,000 – 100,000sqft. Two of the four units are still available more than 4 years after they started on site.

There have been various expressions of interest on the Drum building, which is now 3 years post completion.

BAE systems considered converting the building but opted for a 350,000 sq ft design and build solution with Highbridge on the old Dunlop Goodyear site in Washington. This requirement was very

DTZ

Central Square South, Orchard Street
Newcastle upon Tyne NE1 3AZ, England
Tel: +44 (0)191 223 5700
Fax: +44 (0)191 223 5799
www.dtz.com/uk

A list of directors' names is open to inspection at the above address
DTZ Debenham Tie Leung Limited Registered in England No 2757768
Registered office 125 Old Broad Street London EC2N 2BQ



Certificate No
GB07/71454
Certificate No
GB06/6160

100% recycled paper



location sensitive, the key driver being retention of the workforce in Birtley. Highbridge has subsequently agreed a land sale of 16 acres to Rolls Royce, but completion of this transaction is pending agreement between Rolls Royce and the unions.

Optare Buses considered relocating from Yorkshire and Lancashire. While there still remains a desire to consolidate in the North East on the back of the electric vehicle expertise, Optare are not selling enough buses to finance such an investment.

DHL/Nissan looked at just about every building within a 15 minute drive time of the Nissan plant throughout 2009 to store imported parts for the new Juke model. They eventually settled at the Port of Tyne in a strategic move which gave them very cheap and flexible warehousing on the back of their wider Port of Tyne relationship.

The fact is that all of these enquiries with the exception of EDS had specific reasons to be in the Washington area and would not have considered locations further south.

There has been only one transaction of new build stock in excess of 100,000 sq ft in the region this year, this being the 140,000 sq ft Foxcover Flex building in the Dawdon Enterprise Zone near Seaham. The building was purchased by Metromail to expand and relocate from Peterlee. Once again this was location sensitive, but also cost sensitive as they acquired for less than £25 per sq ft capital value.

Two further lettings were achieved at Dawdon extending to 125,000 and 130,000sqft. Cumbrian Seafoods took both units with extremely attractive incentive packages generated by the tax efficient EZ funding.

The two requirements most likely to have considered Faverdale 58 are those which we discussed last week in some detail.

- The Hitachi Rail 400,000sqft requirement was pursued aggressively by St Modwen. Despite the specific physical constraints of this requirement Hitachi still had a number of viable options in this region and beyond. In fact the recent announcement of a delay in the decision might enable other rail connected sites such as Durham Green to enter the competition.
- The DTS Clipper/Asda 350,000sqft warehousing requirement is still reported to be considering Amazon at Newton Aycliffe, Link 66 in Darlington and Teeslink at Wynyard. This demonstrates very clearly the extent of direct competition in Tees Valley.

Another sub-sector that was particularly active throughout 2009 was Waste to Energy and we received numerous nationwide searches for land suitable for this use. The only potential deals I am aware of in the North East region are at the Port of Tyne and Teesport. Teesside in particular has abundant land set aside for the petro-chemical industry, such as the 2,000 acre Wilton Estate, which is close to the port and extremely well serviced in terms of utilities, therefore ideal for this kind of use.

Competition

I have prepared a schedule of relevant sites and buildings with commentary on each and we can use this as a reference for our meeting. To put your Faverdale site into perspective, One Northeast report a total of 3,703 Ha (9,150 acres) of available employment land in the region, of which approximately 1,736 Ha (4,290 acres) are available in the Tees Valley region alone. Source: North East Business Accommodation Project Baseline Report (April 2009) prepared for One North East by GHK Consulting, Bryan Latty Consulting, CURDS and Bradley Research and Consulting. All data generated from North East Business Space (www.northeastbusinessspace.com)

The total take up of brand new space over the last 5 years is highlighted in the table below which includes all unit sizes throughout Northumberland, Tyne & Wear, Co. Durham and Teesside. These figures have been compiled internally by DTZ over the period. Excluded from these figures are the larger self build projects by the supermarkets/retailers including Asda, Argos, Tesco and Lidl, but they were never in the market for developer led projects.

New Speculative Units					
Availability			Take-up		Take-up
	Sq m	Sq ft	Sq m	Sq ft	Number of Units
2003	84,369	908,140	61,593	662,983	44
2004	80,775	869,455	38,218	411,379	28
2005	81,494	877,197	36,975	397,999	49
2006	84,673	911,412	39,782	428,208	51
2007	247,583	2,664,965	85,739	922,893	69
2008	179,363	1,930,656	90,244	971,378	68
2009	144,784	1,558,489	43,429	467,477	37

To put the Tees Valley market share into perspective, it accounts for just 14% of the existing new stock and 46.8% of the available land.

Marketing History

In terms of marketing we have extensively circulated the Faverdale 58 brochure to all local and regional / national agents on the Industrial Agents Society database (250 agents) and to a mailing list of the top 750 warehouse distribution companies in the UK.

The site has been promoted on numerous web sites including DTZ, St Modwen, Darlington Borough Council and various property marketing sites such as EG Property Link, Focus and Novaloca, for a period of circa 3 years.



The brochure was produced in conjunction with Richard Hunter at Tees Valley Regeneration (now Tees Valley Unlimited) who promotes sites within the region and to inward investors via One Northeast. TVR's details are included on the brochure.

The site has also been included in the annual Estates Gazette Distribution Parks Directory for the last 3 years, which is the definitive industry register of distribution sites throughout the UK. Details are also included on Logistics Manager LM-Sheds.com Directory.

The proposed Faverdale 58 development periodically received coverage in the local press and property magazines including Estates Gazette, Property Week and Property Magazine International.

In summary the site has been very widely marketed for a period of 4 years by 2 DTZ offices in Newcastle and Leeds. DTZ are arguably the most active agents in the big shed distribution market in the Northeast and have actively promoted Faverdale 58 to all appropriate enquires. In addition St Modwen have a relationship with Knight Frank on a national basis whereby Faverdale 58 is also promoted.

Future Prospects

It's impossible to forecast demand but trends over the past year suggest that smaller business units of circa 3,000 – 30,000sqft are most popular. Genuine enquires for larger buildings such as Cherry Blossom Way (100,000sqft) and Drum Park (263,000sqft) have been thin this year with no meaningful negotiations on terms since the DHL/Nissan enquiry of 2009, which settled at Port of Tyne.

The Northeast region has never featured highly as a B8 distribution hub for obvious geographic reasons and proximity to the major centres of population, compared with the Midlands, South East and even Yorkshire. The proposed Northern Gateway investment at Teesport could potentially improve demand by increasing container volumes but this project is currently on hold. DTZ are aware of just one live warehousing requirement of more than 250,000sqft for Teesside over the past 2 years, this being Clipper Logistics/Asda mentioned above. We know that Clipper originally wanted to be on Teesport alongside Asda and Tesco but PD Ports could not accommodate them. Port related sites are more likely to gravitate to the A19 corridor than the A1 to save costs on the return leg of the empty container back to the Port.

B1(C) and B2 Engineering requirements similar to BAE Systems and Rolls Royce generally come about as a result of relocation of an existing skilled workforce from obsolete buildings. In such circumstances our region faces competition from cheaper cost centres such as Central Europe and the Far East. Black and Decker Electrolux have both relocated from Spennymoor in the last 3 or 4 years while Thorn Lighting chose to relocate in Spennymoor having been granted planning consent for residential development on their old site. It is therefore unlikely that any large engineering company not currently represented in Darlington would choose to invest in large scale manufacturing at Faverdale.



Larger scale inward investment projects such as Nissan or the semi conductor plants built by Fujitsu and Siemens are subject to substantial grant funding which is not on the current political agenda. In summary, large scale developments along the lines of Argos are increasingly rare and Tees Valley has an over-supply of competing industrial sites.

We cannot predict take up rates at Faverdale specifically but the Easter development at Faverdale extending to 190,000sqft has been available almost 4 years from completion and 2 of the 4 units remain vacant. On this evidence an employment site of up to 6 hectares would seem appropriate to satisfy a 15 year development pipeline, bearing in mind development is unlikely to commence immediately.

I trust this brief update is useful and I look forward to seeing you soon.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read 'N. Atkinson'.

Nick Atkinson
Director
National Industrial and Logistics Team

cc Richard Bannister – St Modwen
Mike Baugh – DTZ Leeds