

A Bilfinger Real Estate
company



Report

Paul Brewer
FRICS, Director
Retail
GVA
3 Brindleyplace
Birmingham
B1 2JB
08449 02 03 04

A RETAIL STUDY ON THE REGENERATION SITES OF TINKERS GREEN AND KERRIA ESTATES, TAMWORTH

October 2014

Contents

1. OUTLINE.....	3
2. GVA METHODOLOGY.....	4
3. CURRENT BACKGROUND.....	5
4. FOODSTORES.....	6
5. FEEDBACK FROM “MARKET TESTING”.....	7
6. WHAT WILL THE MARKET SUPPORT?.....	9
7. CAPITAL COSTS AND RETURNS.....	11
8. CONCLUSION.....	13

Appendices

Appendix I

Example of the Market Testing Letter circulated to all operators.

1. Outline

- 1.1 As you will be aware, we are currently advising the Council on the comprehensive regeneration of the Kerria and Tinkers Green estates in Tamworth.
- 1.2 Since the project's inception in November 2013, we have gained a thorough understanding of the Council's objectives and requirements to enable a successful regeneration of both estates. This will culminate in the submission of outline planning applications for the redevelopment of the respective estates in late 2014.
- 1.3 Further to our earlier advice on the project, it is understood that the Council will consider the re-provision of retail facilities on both estates. This is in part informed by the outcomes of public consultation on initial development options for both estates (undertaken during July 2014) which has identified strong demand for retail provision at Kerria, and some preference for retail provision at Tinkers Green.
- 1.4 Notwithstanding this, it is important that the re-provision of any retail facilities is cost effective for the Council, and viable in the longer term.

2. GVA Methodology

- 2.1 GVA has a longstanding relationship with all of the major national and local convenience store operators. As part of this, we are in day-to-day contact with the decision-makers of the leading multiple companies and franchises including Asda, the Co-operative, Londis, M&S Simply Food, Morrisons, Nisa, Sainsbury's, Tesco, and Waitrose.
- 2.2 We draw upon our extensive network of contacts to ascertain the level of potential demand for convenience store retail provision at Kerria and Tinkers Green.
- 2.3 Our approach included:
- a) Making contact with all relevant operators by way of personalised email, setting out the background to the regeneration proposals for the respective estates which was supported by reference to the initial development options previously prepared by the Council's appointed architects;
 - b) Make follow-up telephone calls to request operators' views and comments in relation to the sites and, obtain their operating requirements for those locations e.g. size of store (gross/net sales floorspace), level of car parking provision, and delivery arrangements;
 - c) Make discreet contact to the two existing convenience store business owners at the respective estates and obtained an understanding of their longer term aspirations for any relocation ;
 - d) Provide a detailed view, subject to confirmed operator interest, of construction costs, rental levels, longer term viability, and suitable lease arrangement and terms of occupancy. This takes into account the type of fit-out required to meet an interested operator's requirements.

3. Current Background

- 3.1 Of all the sectors within commercial property, Retail is one of the most fast changing and dynamic of them all. It has to change not only to economic and differing trading conditions but also to the effect those market conditions have on their customers.
- 3.2 The wide range of retail offer to the public makes the retail market volatile and one which needs to adapt to change more quickly than most of the other property sectors.
- 3.3 The effect of the On Line shopping due to the internet and mobile phones; Global Warming - changing weather conditions affecting both the supply lines and the quality of produce and its prices; the recession and the current era of austerity which has made retailers review their expansion strategies and size requirements mostly in a more focussed and reduced manner; the number of retailers going into Administration - which produces immediate opportunities for acquisition at "fire sale" prices for those retailers able to take advantage of the current climate - to the detriment of more long term development led opportunities. All these factors have an impact from one day to another on the Retail sector and how it reacts to new opportunities.
- 3.4 Major supermarket operators are looking more keenly at the Convenience Store concept; Fashion operators are looking at extending both their acquisition programmes to Europe, USA and more pertinently toward China and Russia as well as their ranges to household and even (as in the case of NEXT) to Garden Centres in order to widen their customer base as well as their offer.
- 3.5 Size requirements are therefore changing. The food operators are looking at wider range of store footplate to accommodate their various ranges of store formats; the fashion operators are looking to acquire stores which will provide them with the opportunity to display their fullest range of merchandise at the cheapest price - by negotiating deals on mezzanine floors; and the DIY and electrical retailers are consolidating or going into Administration such that their existing or former units are being acquired by other competitors or retailers from a different retail sector.

4. Foodstores

- 4.1 Whilst the convenience/ foodstore retail market remains relatively strong despite the poor economic conditions, foodstore operators are becoming increasingly selective with their site acquisitions and being far more cautious in the values offered. Following the now well publicised Tesco statement that they would be withdrawing from their "race for space at any price "strategy, generally the other foodstore operators are similarly no longer paying "excessive" land values for sites .
- 4.2 In addition the top 5 main foodstore operators are considering moving away from their largest format stores (100,000 sq ft +) and tending to focus on stores of sub 70,000 sq ft. This obviously impacts on their base land requirements although most operators still prefer and will pay increased values for sites where Petrol Filling Stations can be delivered.
- 4.3 Because of the change in the way customers are now shopping for food and convenience items, namely they have moved away from the "one large shopping trip at a major supermarket" to more frequent "basket type shopping" on a regular basis throughout the week, so too have the foodstore operators had to change their floor space formats to create smaller format stores ranging in sizes from 10,000sqft to 15,000sqft as well as Convenience Stores which range from 2,500sqft to 4,500sqft.
- 4.4 Against this backdrop we have undertaken a "Market Testing Exercise" to determine from the key convenience store operators their reaction to these opportunities.
- 4.5 To that end we have made contact with Asda, Coop, Morrisons, Sainsbury's, and Tesco (One Stop); as well as the current operators at each of the two centres trading as Londis and Nisa. We have not approached Marks and Spencer Simply Food nor Waitrose as we know from our experience that they would not have a requirement in this particular locality.

5. Feedback From “Market Testing”

Asda

- 5.1 We made contact with Donna Sefton – Acquisitions Surveyor who has advised that as they already have an 81,000 sq ft net store in the town, they do not have any further requirement for a smaller supermarket in either of the locations the council is promoting.

Central England Co-op

- 5.2 We made contact with Francesca Costello – Acquisitions Manager who responded that the Co-op would be interested in both opportunities initially with a preference that the proposed locations for the convenience stores within the new sites were as prominent as possible on a busy through road with good visibility and access for customer parking.
- 5.3 Their size requirement is for stores of 3,000sqft – 5,000sqftgross and they are flexible about taking a 15 year lease with 5 year rent reviews and no break clauses at a commencing rental of between £13 - £15 per sq ft or indeed possibly purchasing the freehold interest.

Morrisons

- 5.4 We made contact with Paul Smith – Senior Acquisitions Manager who responded that Kerria may have some potential but Tinkers Green was more marginal due its proximity to two existing supermarkets - one of which was a Morrisons own store and they wouldn't wish to cannibalise their existing business.

Sainsbury's

- 5.5 We made contact with Andrew Manger – Acquisitions Surveyor who responded that Sainsbury's would be interested in Tinkers Green as they had sought approval from their Location Planners. They would require a minimum of 4,000sqft gross store but ideally 4,500sqft so that they could get their required floor space format – 3,000qft

trading floorspace and 1500sqft back of house storage, plant and staff accommodation.

- 5.6 They would look to lease only on a 15 year term but with a tenants break clause after 10 years with 5 yearly rent reviews at a commencing rental of between £10 - £12.50 per sq ft.
- 5.7 They would require car parking for a minimum of 10 cars and a separate servicing access for their deliveries – 6 daily visits (2 x Sainsbury's own articulated lorries) plus deliveries from third party suppliers eg. Milk, Bakery, Papers etc.
- 5.8 They would also require planning consent for an ATM, signage and a licence for Tobacco and alcohol sales.
- 5.9 They would not be interested in the Kerria Estate opportunity.

TESCO (t/a ONE STOP)

- 5.10 We made contact with Matthew Grace – Acquisitions Manager who responded that Tesco had previously looked at The Sandybank Public House in Wilnecote and were interested in both of these locations.
- 5.11 Their requirement would be for a store of 2,500sqft gross (1,700sqft trading) with car parking (although it was not critical) but for a minimum 6 cars.
- 5.12 Delivery access needed to be via a separate access at side or rear of store to accommodate an articulated lorry 3 times a week and several 3rd party suppliers delivering on a daily basis.
- 5.13 They would only take a lease of 15 years with a tenants break at the 10th year with 5 yearly rent reviews and initial rentals of between £10 - £12 per sq ft.

6. What will the market support?

EXISTING TENANTS

- 6.1 **TINKERS GREEN** – We have made contact with Mr Ram who operates as an Extra Local and he confirmed that he has a 20 year lease without rent reviews from 2010 at a rent of £270 per month. He would be interested in any relocation opportunity.
- 6.2 **KERRIA ESTATE** – We made contact with Mr Rai who operates as a Londis Convenience store on a 20 year lease paying £11,000. He would be interested in operating a convenience store (2000sqft) in any new development as a Londis – who are his suppliers. He would require parking for 12 cars and requires separate and easy access for at least one articulated lorry delivery a day plus up to 4/5 other third party supplier deliveries daily.

Summary

- 6.3 From the feedback we have received from the operators who have either undertaken their own strategic review of these locations in order to determine what size of store the locations demographics would be financially viable or know the area from previous investigations, it would appear that the level of demand in terms of floor space for a convenience store is between 2,500sqft gross and 4,500sqft gross.
- 6.4 At present, Tinkers Green centre is defined as a Neighbourhood Centre in the Tamworth Borough Local Plan and serves a small, localised catchment area (5-10 minutes' walk). This is focused upon Cottage Walk which lies within the centre of the Tinkers Green estate and consists of 4 units, only one of which is presently occupied and traded as a local convenience store.
- 6.5 The surrounding catchment area is served by existing retail provision. A Londis convenience store is located on Hockley Road, just north of the junction with Overwoods Road. A second local convenience store, Premier Stores, is located on Watling Street to north, together with a small number of other retail and service units which include a hairdressers and a pharmacy. Larger-scale foodstore provision is

provided by the Morrisons store, adjacent to Watling Street and Marlborough Way approximately 15 minutes' walk north-west of Tinkers Green.

- 6.6 Pre-application discussions with the Council indicate that there would be a preference for the re-provision of a small convenience store element as part of the proposed redevelopment of Tinkers Green. This would be considered sufficient to meet planning policy requirements.
- 6.7 The Kerria Centre, located within the heart of the Kerria estate, is defined as a Neighbourhood Centre in the Tamworth Borough Local Plan. The centre serves a small, localised catchment area (approximately 10 minutes' walk radius) which is predominantly residential in character. The Kerria Centre consists of 5 units, two of which are presently occupied and include a Londis convenience store.
- 6.8 The nearest retail provision outside of the Kerria estate is approximately 0.34 miles to the north-west and consists of a Tesco Express convenience store at Tamworth Road, near the junction with Woodhouse Lane.
- 6.9 The Council has advised that there is an aspiration to ensure some form of retail re-provision within the redeveloped Kerria Estate. Whilst this has regard to its status as a Neighbourhood Centre in planning policy terms, an overriding need has been expressed by local residents throughout the consultation process for a convenience retail offer on the site.



7. Capital Costs and Returns

- 7.1 Although we have been provided with illustrative architects proposals for the new neighbourhood centre at Tinkers Green and Kerria Estate they are not detailed enough for us to provide you with a definitive development appraisal but we would make the following comments and observations as part of our remit.
- 7.2 Cost of provision – we have investigated the relevant costs of providing a convenience store of both 2,500 sq ft (232.25 sq m) as required by Tesco (t/a One Stop) and also 4,500 sq ft (418 sq m) as required by both The Co-op and Sainsbury's.
- 7.3 We are basing our figures upon a single storey unit constructed to a developers shell which includes breeze block walls, screeded concrete floors (ready to take the operators own choice of flooring), concrete ceiling, glazed shop fronts, an amenity block (including W/C, wash hand basin and electric water heater) and services to a capped distribution node.
- 7.4 In addition we have estimated the cost of providing limited customer car parking with drainage, delivery access and landscaping and therefore would confirm that for the smaller store we would anticipate building costs of £1,500 per sq m (£352,500), and for the larger store £1,250 per sq m (£522,500).
- 7.5 These figures have not taken into account any developers profit or contingency sums. With regards to developers profit in this current market it is our experience that retail developers are looking to achieve a minimum return on their costs of between 12.5%-20% and would wish to have a legal commitment with a chosen operator as a tenant.
- 7.6 Without more detail of any proposed scheme it is obviously difficult to estimate contingency sums but they are usually based upon 3%-5% of the development costs



depending upon how much investigation and preparation the developer has been able to undertake prior to submitting any offer.

- 7.7 Neither have we included within these figures any rent free or capital incentive that the operators may require to help offset their shop fitting costs. Although each operator tends to look at their viability appraisals in different ways (ie some prefer rent free periods whilst other prefer a capital payment and others a combination of the two) as a guide we would suggest that any operator will certainly require a minimum of 3 months' rent free and capital contribution in the region of £25,000 (for the smaller store) and £50,000 (for the larger store) – however these sums are negotiable and will be dependent upon the level of competition that can be generated.
- 7.8 Likely rental return – From our discussions with the operators and from our own experience of dealing with neighbourhood centres we would concur with the rental figures being stated by the operators namely between £10 - £15 per sq ft is the usual level of rents that such schemes command.
- 7.9 Nature of lease – Again the market norm is a 15 year full and repairing lease within the provisions of the Landlord and Tenants Acts 1954 and subject to rent reviews every fifth year to either RPI increases or open market values. As stated above several of these operators require a tenant's break clause after the tenth year.
- 7.10 The covenant strengths of the three national operators who have expressed an interest (namely Co-Op, Sainsbury and Tesco) would command yields of between 6% and 6.25% in the market place on the basis of a fair open market rent. However the expected yield for an independent operator may invariably be pushed out to nearer 7%-7.5% regardless of the supply contract that they may have with such brands as Londis, Nisa or Spar as it is not the supply contractor who would be taking the lease in most incidences but a private individual.



8. CONCLUSION

- 8.1 From our market testing of the national convenience store operators we can confirm that Central England Co-op and Tesco (trading as One Stop) are interested in both Tinkers Green and Kerria Estate, whilst Morrisons are only interested in Kerria Estate and Sainsbury's in Tinkers Green. Both of the existing tenants have expressed a wish to continue to trade and would be interested in becoming tenants in the respective proposal which affects their current business.
- 8.2 There is no doubt that the covenant strength of the national operators such as Co-Op, Sainsbury's and Tesco provides excellent comfort to either the Council as landlord or any developer who may be chosen to undertake the redevelopment of these sites and require external funding.
- 8.3 Conversely it is a fact that independent operators, even with the relationships with national suppliers such as Londis and Nisa do not provide the same strength of covenant as they take the leases in their own names.
- 8.4 It must not be forgotten however that the Council already have existing tenants within each of the two centres whose interests would need to be acquired if it was preferred to attract the interest of a national operator rather than relocate the existing tenant. This would involve the Council in undertaking the service of a Notice to Quit under the Landlord and Tenant Acts 1954. The service of such notices would trigger a legal process and require the Council to pay compensation to the parties whose interest were being terminated based upon the Rateable Value of the units and to have a number of issues already in place, not least of which is a planning consent and potentially a committed (albeit conditionally) new tenant.



- 8.5 Although currently outside the remit of our report we would anticipate the Council may wish to sell the sites either freehold or on a long leasehold basis or develop them themselves. Either way there will be the need to procure the interest of either a tenant or a developer to undertake either the proposed mixed use development in one or both of the two locations. We would suggest that the best way to procure such interest would be to undertake a formal expression of interest exercise, followed by a selection process which included marking each party against an agreed Matrix (which set out the key elements that the Council would require e.g. in terms of a retailer - Rental levels, Covenant strength, merchandise offering, opening times, fitout proposals etc) so that upon a decision being made there was an audit trail. Thereafter Heads of Terms would be agreed and solicitors instructed.
- 8.6 Should the Council require any further advice on such a procurement or marketing strategy GVA would be pleased to offer their experience and expertise to the Council.

Dear

On behalf of Tamworth Borough Council we are instructed to ascertain whether or not there is demand from Convenience Store/ small store format operators to gain representation in two proposed new Neighbourhood Centres to be considered at two centres on estates on the outskirts of Tamworth Town centre known as Tinkers Green and Kerria.

The Brief

Tamworth Borough Council Housing directorate are undertaking plans for the demolition and redevelopment of sections of the Tinkers Green and Kerria estates.

To assist their preparations for the design and subsequent planning applications for the sites, the Housing directorate have requested that a study be undertaken to examine the accessibility of the two sites to retail and community facilities and the need for any future provision.

Community facilities are important for meeting a wide range of social needs and improving the social, economic and health well-being of communities. Providing these facilities at a local level, in convenient locations, increases accessibility levels for local people and reduces their need to travel.

The strategy for Neighbourhood Centres is to draw all new retail and community facilities to the centres so that a good mix of uses is created. This will allow local communities to address their day to day needs and to create community hubs. The overall aim is to encourage the use of more sustainable modes of transport and enhance the viability and vitality of these areas.

Tamworth Town Centre and Retail study (2011)

As part of this study, a qualitative health check was undertaken for the Neighbourhood Centres within the area, in order to assess their vitality and viability.

The study concluded that the Tinkers Green Neighbourhood Centre is considered to have a poor level of vitality and viability because it appears run down in appearance.

The consultants concluded that whilst it does have some problems of vitality and viability they do not consider them to have serious problems that would justify particular action such as demolition.

The retail study stated that it is important to maintain the retail facility at Tinkers Green as it serves a Neighbourhood catchment area. However it is of poor quality and should be improved. Improving the retail units may encourage the vacant units to be occupied and improve the overall vitality and viability of the retail area. Consideration is therefore to be given to relocation to the main road to improve commercial interest.

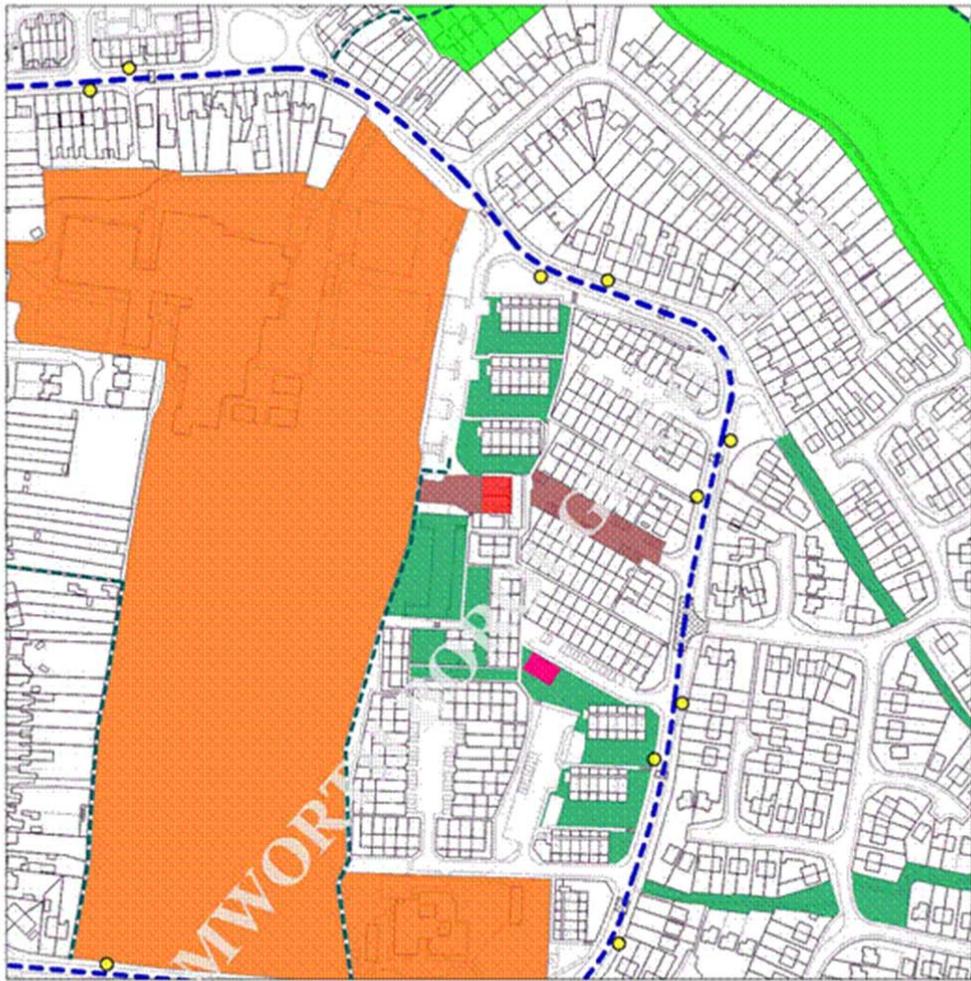
The Kerria Centre Neighbourhood Centre's vitality and viability is considered to be fair because it only contained one vacant unit.

The retail study stated that it is important to maintain the retail facility at the Kerria as it serves a Neighbourhood catchment area, however it is of poor quality and should be improved if possible. Consider relocation to the main road to improve commercial interest.

TINKERS GREEN

To be read in conjunction with the plan below attached above you will find a proposed layout plan of the scheme which illustrates a site for a convenience store with a number of other units and some car parking to be prominently located having frontage onto the main estate road (Tinkers Green Road). It would be useful to hear from you as to whether or not you have a requirement for this location and if so what your ideal size requirements together with your car parking provisions.

Tinkers Green



25 0 25 50 75 100 125 150 175 200
Metres

Facilities and Transport

- Main Road Link
- Play Area
- School
- Shops
- Car Park
- Community Centre
- Bus Stop

Pedestrian and Cycle Links

- Cycleway
- Public Footpath

Open Space

- Semi Natural
- Urban Parks
- Amenity Greenspace
- Cemeteries and Churchyards
- Civic Space



© Crown copyright and database rights 2013
Ordnance Survey 100016267



Date: 14.10.13

Scale: 1:3000

Tinkers Green is a mixed housing estate located in the Wilnecote ward with a number of local facilities and services.

At a wider level, Tinkers Green is located to the south east of Tamworth town centre, and approximately 1km north of junction 10 of the M42 motorway. Tinkers Green Road is a loop from Hockley Road which adjoins Watling Street, formerly the A5 truck road prior to the A5 by-pass constructed some 20 years ago.

There are residential properties of varying styles and ages in the immediate area, but the majority date from the 1970's and 1980's with rendered walls, some brick elements and tile roofs. There are 3 and 4 storey flats as well as semi-detached dwellings situated further away from the main centre, along the main road.

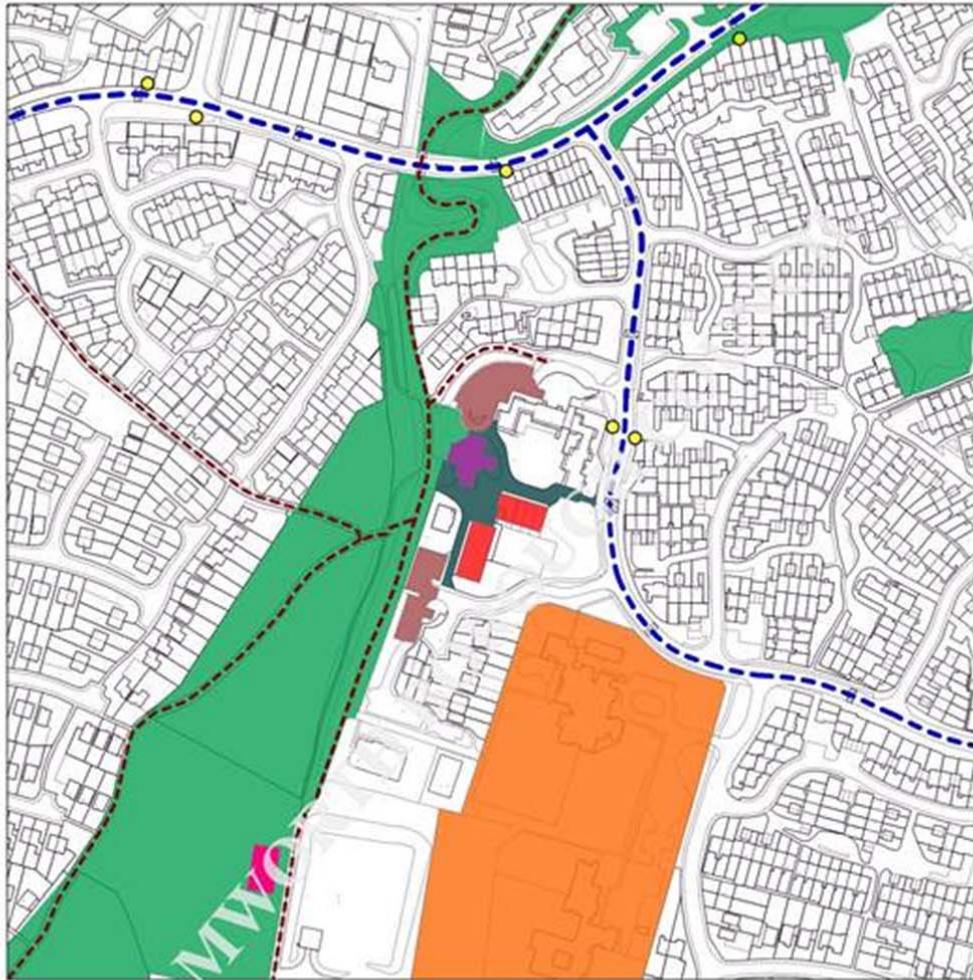
The area has a high level of amenity space but this appears to be under-used. A playground is situated to the south of the site within Tinkers Green, however due to the layout of the estate it feels hidden away and is not integrated into the wider estate. The adjacent Wilnecote High School provides numerous facilities for sports (such as swimming, netball and fitness suite), a library, rooms for meetings and training, computer suite and recording studio.

Tinkers Green is a 5 minute walk to Hockley main road and a further 5 minutes to the B5404 Watling Street, which by car gives very good access to the A5 (and M42) and into Tamworth town centre. The Arriva bus routes 8 and 9 operate along Tinkers Green Road with a frequency of a bus approximately every 10 minutes at peak times Monday to Friday. Designated cycle routes can be joined from the local road network along Watling Street and in Kettlebrook Local Nature Reserve. Tamworth has a good cycle network across the Borough and links to North Warwickshire.

THE KERRIA ESTATE.

To be read in conjunction with the plan below attached above you will find a proposed layout plan of the scheme which illustrates a site for a convenience store with a number of other units and some car parking relocated onto a more prominent location having frontage to the main estate access road . Once again it would be useful to hear from you as to whether or not you have a requirement for this location and if so what your ideal size requirements together with your car parking provisions.

Kerria



25 0 25 50 75 100 125 150 175 200
Metres

Facilities and Transport

- Main Road Link
- Play Area
- School
- Shops
- Car Park
- Community Centre
- Bus Stop

Pedestrian and Cycle Links

- Cycleway
- Public Footpath

Open Space

- Semi Natural
- Urban Parks
- Amenity Greenspace
- Cemeteries and Churchyards
- Civic Space



© Crown copyright and database rights 2013
Ordnance Survey 100019267

Tamworth

The Kerria Neighbourhood Centre is a group of commercial and community buildings at the heart of what is a comprehensive social housing development of the 1970's and 1980's era located in the Amington Ward.

The Kerria is a short 2 minute walk to Woodland road and then a further 5 minutes to Mercian Way, which by car gives very good access to the A5 (and M42) and into Tamworth town centre. The Arriva bus route 5 operates along Kerria Road with a frequency of a bus approximately every 12-15 minutes at peak times Monday to Friday. Designated cycle routes can be joined from adjacent to the Kerria Centre; Tamworth has a good cycle network across the Borough and links to North Warwickshire.

FEEDBACK.

I would be very happy to discuss these opportunities with you in more detail once you've had the chance to read and digest the information herein.

To that end I will undertake to give you a call week commencing 6th October and in the interim I look forward to hearing from you as to which (or both) of these proposed Neighbourhood centre developments could be of interest.