

Appendix SE2



Farnborough Business Park
Report on Marketing

March 2006

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1.0 Introduction

1.1 Introduction

This report examines the occupational activity to date at Farnborough Business Park in terms of lettings and sales, the current status and the future development of the remaining plots. Included within the report is a SWOT analysis identifying the strengths and weaknesses of the park and the impact on occupier interest and activity at the park. The report has been compiled to support a proposal for the construction of a De Vere Village hotel complex at Farnborough Business Park.

1.2 Knight Frank

Knight Frank are retained as Joint letting agents at Farnborough Business Park and have been involved since 2000.

Founded in London more than a century ago, Knight Frank, a Limited Liability Partnership, is the world's largest privately owned global property agency and consultancy. Its principal activity is advising owners, investors, users and developers of commercial and residential real estate on achieving the maximum value from their properties as effective workspaces, homes or investments.

A global partnership with prominent New York based real estate firm, Newmark Knight Frank, has created a network of more than 140 offices in over 30 countries, staffed by more than 4,500 professionals. Knight Frank has the resources, local knowledge and transaction expertise to deliver a seamless property service with consistent quality levels around the globe, enabling clients to save time, reduce costs and capture value.

Knight Frank's areas of expertise include valuations, acquisitions, disposals, property asset management, investment and fund management, rent reviews, lease assignments, property audits, building surveys, relocation advice, planning advice, countryside management, marketing and many other specialist services.

The firm continues to expand all aspects of its property business, including commercial and mixed use development consultancy and urban regeneration, and it maintains an increasing focus on key market sectors such as healthcare, as well as expanding its network of commercial and residential offices both in the UK and abroad.

1.3 The Team

Knight Frank's London-based National Offices team covers the South East of England outside Central London, with specific focus on the key corridors of the M4, M3 and M25, as well as Greater London. Our team currently comprises 9 fee earners dealing with office agency and development, plus three further fee earners involved in professional/Landlord and Tenant work. Please refer to our team organogram in Annex A.

In addition to the above, our team also advises many institutional landlords and developers including the following:

- Airport Property Partnership (BAA Lynton/Morley)
- Akeler
- AXA Real Estate Investment Managers
- British Land
- Delancey
- Exemplar Properties
- Legal & General
- McKay Securities Plc
- Prudential
- Quadrant Estates
- Rouse Kent Ltd
- RREEF
- Slough Estates
- Standard Life

We are involved with an extensive list of high profile, high quality projects across the South East, including key business parks such as Green Park, Kings Hill, The Royals and Eureka Park. We therefore believe we can claim a strong position as one of the leading Central London agents covering the market in Outer London and the South East.

In addition to our extremely strong representation in the agency markets, the team is supported by a full time data analyst and bespoke database, together with the renowned Knight Frank quarterly M25 Report and Research capability which is considered a leader in the decentralised market.

This report has been compiled by Will Foster BA(Hons) MSc MRICS, a Partner with 8 years market experience and day to day responsibility for the M3 corridor and Southern Home Counties office market.

2.0 Farnborough Business Park – Progress to Date

2.1 Current Situation

Farnborough Business Park is the largest business park in the M3 corridor.

Since the park was purchased in 1999, all principal infrastructure has been put in place, together with the first phase business space development comprising 1 Meadow Gate Avenue (38,000 sq ft) and 25 Templer Avenue (85,000 sq ft approx). The entire park comprises some 125 acres of land with an outline consent for 1.67 million sq ft of new build B1 development and 64,600 sq ft of new build subsidiary floorspace. The park also contains a group of historic buildings which are to be retained and have been earmarked for a variety of uses. These include the Listed transonic and 24ft wind tunnels, building Q134 which is currently being converted, various research and testing facilities and a former telephone exchange.

The first speculative phase comprising 1 Meadow Gate Avenue and 25 Templer Avenue, secured early success with the letting of the former to Autodesk at £26.75 psf in 2001, and subsequent lettings to Agusta Westland (10,000 sq ft) and Imagine Homes (10,000 sq ft) in 25 Templer Avenue.

Following a severe decline in occupational demand, the remaining accommodation has remained available in the face of intense competition from other product in the Blackwater Valley area, and low levels of occupier demand.

The agency team have marketed available plots for pre-letting or design and build opportunities within the existing planning consent but no transactions have yet been concluded on this basis.

Due to the difficult conditions in the commercial property market and in order to create a diversification of uses to add vibrancy to the park, a site of some 12 acres has been sold to Redrow Homes, subject to planning, for a residential quarter which will deliver circa 540 units over the next few years. This will encompass both new units and the conversion of two of the historic buildings as apartments.

In addition, a pre-letting transaction has been concluded with Barons on a plot of 4.3 acres adjacent to the North Gate entrance for a showroom facility for BMW and Mini. Whilst the demand for office product in the Blackwater Valley generally has been at a low point in the cycle for the past 3-4 years, we have noted that many of the potential occupiers who have considered and rejected Farnborough Business Park as a location have indicated the limited on-site amenities for staff as a major issue. In addition the limitations on public transport have been an issue, given a parking ratio of 1:30 sq m

gross. This is inferior to a number of the competing business parks in the area, which benefit from more historical car parking ratios.

2.2 Current Developments

Slough Estates are currently constructing two new buildings, namely 200 and 250 Fowler Avenue comprising 41,570 sq ft and 35,510 sq ft respectively in two four-storey self-contained business use buildings. These new buildings will look out across a new amenity Square which will form the centrepiece of the park and contain a striking feature constructed from a restored airship hangar.

To the east of 200 and 250 Fowler Avenue, a former MOD building (Q134) has been re-branded as The Hub and is currently undergoing a comprehensive refurbishment to provide air conditioned business accommodation on two upper floors, together with conference facilities, a café bar, heritage centre and marketing suite at ground floor level.

All of the above projects are currently underway with completion on schedule for Summer 2006. This will provide a focus both for occupiers working on the park and also for members of the public who will be able to use The Square for recreation. The new office buildings have been designed to provide reference to the more historic elements of the park including The Hub, incorporating a terracotta cladding system sympathetic to the brickwork elevations on the older buildings.

3.0 Research Initiatives

The Farnborough Business Park agency team have conducted research into the range of amenities at other leading business parks in the South East – see Annex B.

With 1.67million sq ft Farnborough Business Park falls into the category of large business parks. Our analysis demonstrates the majority of the larger business parks (say 750,000 sq ft plus) benefit from a range of amenities. Those that do not have amenities as indicated all fall below the commonly accepted threshold of 500,000 – 600,000 sq ft of delivered or deliverable B1 product, where catchment on-site is insufficient to make self-sustaining amenities viable.

It is therefore considered that for business parks of this size a strong amenity offer, preferably including a hotel, is extremely important in providing the context for a modern business environment.

4.0 Marketing Strategy

4.1 General

Farnborough Business Park has been marketed since 1999, when the land was purchased from the MOD, with a structured marketing strategy being employed by a committee involving the agency team, designers and Slough Estates' marketing team. The marketing campaign has been continually refreshed to ensure up to date information on availability and forthcoming development, which is relayed to the market place, and to retain a freshness of approach and appeal to potential occupiers. Key marketing elements are summarised as follows:

4.2 Marketing to Date

4.2.1 Branding

Given the medium term development programme for Farnborough Business Park, the various elements of the park have been divided into plots A, B, C etc for ease of reference. In addition, the Farnborough Business Park logo was created early on and has been employed in totems at both the Pinehurst Gate and North Gate entrances to the park, as well as on all subsequent literature, website etc.

4.2.2 Letting Boards / Banners

Branded boards have been erected at the entrances to the park since purchase, with messages refreshed as appropriate during the implementation of infrastructure, speculative development etc. In addition, individual buildings and plots have been provided with marketing boards to ensure clarity at every point on the park, these being updated as appropriate following lettings etc.

Following the construction of 25 Templer Avenue, a large and extremely prominent banner has been erected on the south side of the building overlooking Farnborough Airport and extremely prominent for both air traffic and attendees at the bi-annual Farnborough Airshow. This in particular has proved an extremely effective marketing tool.

4.2.3 Brochures

A generic brochure has been created for the park, which has been updated and re-designed at appropriate intervals to ensure it remains contemporary. In addition, further brochures have been produced for each of the build phases of the park with excellent photography/CAD images, floor plans, transport information and master plan overview. See Annex C.

4.2.4 Newsletter

A Farnborough Business Park newsletter, "Take Off" is now running and is scheduled to be issued quarterly with updates on letting/sales progress, information on the park management team, press

releases related to activity onsite and other salient information. This has been circulated both to the London and appropriate regional agency community as well as commercial occupiers within an appropriate radius of the park.

4.2.5 Occupier Targeting

Throughout the life of the park there has been continual direct contact with occupiers, including the purchasing of occupier lists. In each case the list has been constructed particular to the desired end user / particular product being promoted at that time.

This targeting has been augmented by both the agency team and the on-site representative (see below).

4.2.6 Onsite Representative

Since the park's inception, Slough Estates have employed an on-site marketing representative from LAH Property Marketing who has provided the first port of call for occupiers visiting the site, carrying out telemarketing campaigns and research and otherwise ensuring smooth running of any occupier visits to the park.

4.2.7 PR

Slough Estates currently employ Tamesis to advise on best promotion of the park in both the property press and through other media. This has also involved maximising impact from transactions/activity onsite, and arranging discussion groups, and setting up the Farnborough Press Club with TAG Aviation and St Modwen, the Farnborough Town Centre developer.

4.2.8 Website/Internet

A bespoke website has been created for the site including detailed information on all phases and buildings, together with detailed specification, and hyperlinks to relevant sites such as TAG Aviation/Farnborough Airport site. Requests for further information can be effected by email links to the agency team. The website is augmented by web entries on EGI, Knight Frank, CB Richard Ellis, Hollis Hockley and Slough Estates websites and flagged on all principal property database systems available over the internet.

4.2.9 On-site Events

Throughout the life of the park so far, these have primarily targeted the agency community. Typically the larger occupiers who have been the primary target thus far tend to have agent representation; specific occupier events are not usually well attended. However, major occupiers in the M3 corridor have been targeted with invitations to the Farnborough Airshow, with some success.

4.2.10 Technical Information

Detailed technical documents, including CAD plans and space planning, as well as performance criteria etc have been made available to occupiers and agents to allow analysis of the various opportunities in terms of occupier density, layout flexibility etc.

4.2.11 Flexibility

Primarily with reference to market conditions, increased flexibility has been offered to occupiers as follows:

4.2.12 Tenure

Slough Estates have formally demonstrated an ability to offer occupiers both leasehold and freehold opportunities, subject to terms.

4.2.13 Lease Flexibility

Occupiers have increasingly sought flexibility on business space product, primarily at the end of the fifth year of the term. This has been accommodated where necessary/appropriate.

4.2.14 Divisibility

As bigger B1 requirements have been relatively scarce in recent times, buildings and floors have been made available in logical smaller units such as individual East and West wings within a single floor at 25 Templer Avenue.

4.2.15 Incentives

A variety of incentives have been offered to occupiers on a basis to suit, including rent free periods, stepped rentals, subsidised fit out programmes etc.

4.2.16 Use

A diverse range of uses has been considered for the park, as is demonstrated by the Barons BMW and Redrow transactions mentioned above.

5.0 Current Availability and Quoting Terms

5.1 B1 Floorspace – Current Availability

Current B1 availability on the park is as follows:

5.1.1 1 Meadow Gate Avenue

6,900 sq ft available at ground floor level. Strictly speaking, this space is available on a sub-lease from Autodesk, who took an overriding lease on the whole building, but Slough Estates have marketing autonomy and can offer the accommodation on terms of their own choosing. Quoting level £19.50 psf. This reflects the downturn in the market from the completion of the original Autodesk transaction at £26.75 psf. Due to its configuration, it would be unviable to divide the suite into two. Occupier demand has been limited, primarily due to the competition of many good quality suites in alternative buildings, with parking at closer to 1:200 sq ft – the subject suite offers 1:276 sq ft.

5.1.2 25 Templer Avenue

This building was designed by Foster and Partners and comprises circa 85,000 sq ft of accommodation in a prestige building with full height glass to all office floors, and a feature atrium with exposed lifts and open staircase. Parking is provided at 1:252 sq ft. Having concluded lettings to Agusta Westland and Imagine Homes on the Third Floor, there remains 59,490 sq ft across Ground, First and Second floors, each floor comprised of East and West wings either side of the central lift/stair/landing area. A quoting rent of £21.00 psf reflects market conditions, previous lettings to Agusta Westland and Imagine Homes having been concluded at £27.00 psf and £23.50 psf respectively. Each of the two leases in place contains a tenant break in the fifth year, with the Agusta break approaching in circa 12 months.

In both instances quoting rents are a reflection of market conditions and to a degree with reference to competing products. However, in both instances achievable deal terms will also be made with reference to tenant covenant, lease length etc.

5.2 B1 Floorspace – Forthcoming Availability

As stated above, three new B1 products will be delivered in Summer 2006, these being as follows: 200 Fowler Avenue (41,570 sq ft), 250 Fowler Avenue (35,510 sq ft) and The Hub (34,100 sq ft plus café, conference facilities, park management suite etc).

At the current time, we are not formally quoting a rent for the above properties, but it is envisaged that a rental in the early £20s may be appropriate for 200 and 250 Fowler Avenue, with a quoting rental for offices in The Hub in the late teens.

No formal quoting figures have been applied to either pre-lettings on vacant plots, or for the sale of land. Any such discussions are considered on an individual basis depending on the size and nature of the requirement, the use category proposed, and the micro location on the park.

6.0 SWOT Analysis

6.1 Strengths

- **Market Profile** – As the largest deliverable opportunity for commercial accommodation in the M3 corridor, Farnborough Business Park has a renowned brand and market knowledge of the concept is extensive
- **Accessibility** – the park is equidistant between junctions 4 and 4a of the M3 (both circa 2 miles) and is within 15 minutes walk or a short bus/taxi ride of Farnborough mainline station, with fast services to London Waterloo.

- Deliverability – the Slough Estates brand provides confidence for occupiers in terms of quality of built products as well as comfort as to deliverability of pre-let/turnkey product.
- Presentation – the up-front installation of infrastructure and well-maintained landscaping allows promotion of the existing buildings and available plots as “plug and play”.
- Management/Security – occupiers benefit from the certainty of 24-hour estate-run security and an on-site management team during office hours to handle issues that arise and provide information where required.
- Design – Slough Estates’ overall control of building creation (such control to be retained on plot sales) provides a guarantee of quality in the surrounding environment to potential and existing occupiers.
- Range of Product – following completion of the refurbishment of The Hub, occupiers seeking a presence at Farnborough Business Park can be accommodated from a single person unit up to a pre-let solution of several hundred thousand square feet.

6.2 Weaknesses

- Public transport access onto the site is currently extremely limited.
- The lack of a central amenity area, particularly a food / beverage / convenience offer which would provide occupiers with a focal point on the park.
- The lack of vehicle and pedestrian activity creates a feeling of vacancy.
- 25 Templer Avenue and 1 Meadow Gate Avenue feel somewhat isolated from the principal areas of current activity on the park, namely the area between Pinehurst Gate and O’Gorman / Fowler Avenues.
- Many of the business park schemes elsewhere in the Blackwater Valley were constructed adopting historic consents with more favourable car parking ratios of circa 1:200 sq ft or better, considerably superior to those at Farnborough Business Park. This has been a major factor in determining the preferred location for B1 occupiers.
- Despite close proximity to Farnborough Town Centre, pedestrian access is unattractive and convoluted, and individuals are generally unwilling to use it.

6.3 Opportunities

- Implementation of a new bespoke bus service to serve occupiers on the park and provide pick up / drop off from Farnborough Station and the Town Centre will assist in linking the park to the public transport network, and help occupiers to perceive themselves in an “edge of town centre” location rather than an “out-of-town” business park, thereby reducing concerns over parking provision.

- The anticipated redevelopment of Farnborough Town Centre by St Modwen will be a strong message to promote the greater Farnborough area to occupiers, with Farnborough Business Park being seen as the focus for business space users. Slough Estates, St Modwen and TAG are in discussions as to how best their mutual interests can be served.
- Installation of a serviced office operator, preferably a renowned brand, into The Hub will provide opportunity to attract more occupiers onto the park and provide space to grow and consolidate, potentially providing a future source of institutional tenancies for conventional B1 product on the park.
- Large scale availability of land permits consideration of a variety of uses, subject to planning where necessary, in separate areas without conflict of image / aspect etc, broadening the potential appeal of the park.

6.4 Threats

- Continuing sluggish demand in the M3 corridor and particularly from the technology sector, with competing schemes prepared to reduce deal terms accordingly.
- Market perception of the existing available stock as "old", with a consequent expectation from the occupier market of increasingly favourable deal terms.
- Continued perception of being disconnected from Farnborough Town Centre, due to the neglected area north of Pinehurst Gate.
- Potential disruption caused to the primary speculative development product by construction traffic to the residential zone via Pinehurst Gate.

7.0 Market Perception

Farnborough Business Park is well known throughout the agency market as a high quality project into which Slough Estates have invested considerable sums to provide an attractive, ready-made environment for occupiers. Slough Estates' reputation as a leading property company and the overall size of the project has helped to maintain the park at the forefront of the market in the M3 corridor; subject to the impact of overall market conditions.

7.1 Business Space Market

The offer at Farnborough Business Park thus far has suffered in particular in comparison to nearby Farnborough Aerospace Centre which, due to its central amenity building, has been successful in attracting several occupiers including Sony Ericsson and Stasys Lockheed Martin recently. The need to provide an environment to appeal to staff is becoming increasingly paramount in the South East as demand for skilled labour increasingly exceeds supply. Therefore, staff recruitment and more particularly retention is increasingly a primary factor in business relocation.

It has become apparent that the implementation of the current construction programme at the park has been welcomed by the agency and occupier community in seeking to provide a sense of place at the heart of the park which is generally considered to be vital to maximising letting prospects going forward. However it is felt there would be a vital additional benefit in confirmed commitment to further amenities, particularly a hotel/conference/fitness centre.

8.0 Conclusion

The marketing of Farnborough Business Park by the agency team since its inception, and the research that has been undertaken alongside, clearly confirm that the introduction that the De Vere Village Hotel complex will be of great benefit in the following areas:

- Provide additional catering and leisure amenities in an easily accessible location for both ends of the working day as well as at lunchtime.
- Provide a convenient on-site solution for businesses with high levels of corporate visitors / conferences / overnight stays.
- Provide a statement building on the principal entrance to the park at Pinehurst Gate, raising awareness of the park in general and demonstrating a renowned brand in securing a position at Farnborough Business Park.
- Increase vibrancy and activity at the principal entrance and close to the heart of the park, with additional pedestrian and road traffic, particularly outside normal business hours, creating a more consistent vibrancy to the park during the whole day.
- Provide an increasingly attractive and well-served environment overall for incoming companies and their staff, thereby enhancing prospects of future development and lettings over competing business locations.
- Provide a new high profile hotel offer in Rushmoor, which at present is undersupplied with quality hotel accommodation.