

PRIME INVESTMENT OPPORTUNITY

BAE SYSTEMS

SMALL ARMS AMMUNITIONS FACILITY

RADWAY GREEN, CREWE, CHESHIRE, CW2 5PJ



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EXECUTIVE SUMMARY

- Crewe is a major logistics and industrial location within Cheshire.
- Radway Green is situated within 1.5 miles of junction 16 of the M6 motorway, 3 miles east of Crewe.
- The site has been used as a small arms ammunition facility for over **75 years**.
- BAE have operated the site since 1987 and still own over 100 acres of additional land surrounding the subject property used for a variety of uses including a firing range.
- The subject property is a state of the art manufacturing and distribution facility built by BAE in consultation with the Ministry of Defence, completed in 2011 at a total cost in the order of **£83,000,000**.
- Let to BAE Systems plc on a lease expiring 1 October 2036 (over 22 years unexpired).
- Current rent is **£2,892,853** per annum (October 2014) which rises annually based upon **2%** fixed increases throughout the lease.
- **BAE Systems plc** are a FTSE 100 company with a market capitalisation of £13.4bn.
- BAE Systems plc are a world leader in small arms ammunition. They supply over 80% of general munitions to UK armed forces, having a long term agreement under the MASS partnership with the MoD.
- **Offers in excess of £49,700,000 (Forty Nine Million Seven Hundred Thousand Pounds)** which reflects a net initial yield of 5.5% after purchasers costs of 5.8%.

BACKGROUND

IMPORTANCE OF RADWAY GREEN

HISTORY

Radway Green has been synonymous with small arms production for almost 75 years. Developed in 1940 to create a Royal Ordnance Factory, where at its height it employed on site over 15,000 people producing during war time 13,000,000 rounds of ammunition per week.

BAE Systems plc bought Royal Ordnance in 1987 acquiring most of the factories that made explosives and ammunition for the British Armed Forces. There are three sites in the UK at Glascoed, South Wales, Birtley in County Durham and the subject property, Radway Green, Crewe in Cheshire.

In 2008 the UK Ministry of Defence entered “a Munitions Acquisition Supply Solution (MASS)” with BAE Systems initially for 15 years to supply over 80% of “general munitions” used by UK armed forces for both training and frontline operations. The set of munitions

is wide ranging from small arms and medium calibre ammunition, mortar bombs, tank ammunition, artillery and naval gun shells.

BAE Systems have teamed up with the Ministry of Defence to be a world leader in producing this type of product. The MASS partnering agreement is seen as a major benefit to both providing certainty on costs and revenues, but also enabling the parties to work together creating better performing and safer munitions going forwards.

RADWAY GREEN TIMELINE

1940

In January, construction work began on the four main workshops of Radway Green, one of the 44 Royal Ordnance Factories in operation during the Second World.

1940-1945

Further expansion gave Radway Green the capacity for complete manufacture of Small Arms Ammunition. 15,000 people were employed, working 7 days/weeks on 3 shifts.

1945-1948

After the war, the workforce was reduced to around 1,500 people and a period of diversification took place. Brass strip was produced for industry and manufacture of electric and gas cookers commenced.

1948-1955

In 1948, Radway Green switched back to the manufacture of ammunition for the Korean War effort. In 1953, the combined production rate averaged 4.5 million rounds per week.

1955-1960

By the mid 1950s, the old 20mm Hispano ammunition for the RAF was being replaced by the new 30mm ADEN ammunition. Production built up to an average of around 30,000 per week and continued at that level through to the late 1980s.

THE FUTURE

As part of the MASS Agreement, BAE Systems have created the new facility at Radway Green which our clients are looking to dispose of, being a state of the art facility developed at a total cost in the order of £83,000,000. The new facility has improved production growth by over 300% with the facility supplying 1,000,000 rounds of ammunition a day.

Whilst the initial agreement was for 15 years we believe this is a long term partnership which will see the use of Radway Green as a munitions facility for the foreseeable future; it has already been in this use for almost 75 years.



1960's

In addition to Small Arms Ammunition, a number of other components were manufactured. These included explosively formed parts for the 105mm Light Gun, coin banks for the Royal Mint in preparation for decimalisation, jerrycans, links and ammunition boxes. At the peak of production, 15,000 81mm Bomb Tails per week were manufactured.

1970's

In the mid 1970s, another new product family was introduced, namely 30mm RARDEN Ammunition, used on the Warrior Infantry Fighting Vehicle.

The cat ridge case was the largest case that the factory had ever produced. The new facility was opened by HRH The Duke of Edinburgh on 30th March 1979. On completion, the facility was the largest and most modern of its kind in Europe.

1980's

Introduction of 5.56mm into service brought another calibre to Radway Green. LAW spotting ammunition was produced to match the LAW weapon system.

1990's

Closure of RO Nottingham, RO Blackburn and the foundry at RO Birtley brought missile and fuze components, brass discs and more Medium Calibre case and projectiles.

2000's

The 2000s brought great change, starting in 2002 with the closure of the foundry and rolling mill. The signing of the MASS contract with UK MoD in 2008 signalled a new beginning for Radway Green as a Centre of Excellence for Small Arms Ammunition. Ground-breaking for the new facility took place on 22nd March 2010. 2011 marked the handover of the new Radway Green facility to BAE Systems. The facility ensures continued supply of Small Arms Ammunition to the front line troops, with a total capacity of 320 million rounds per year.

CREWE

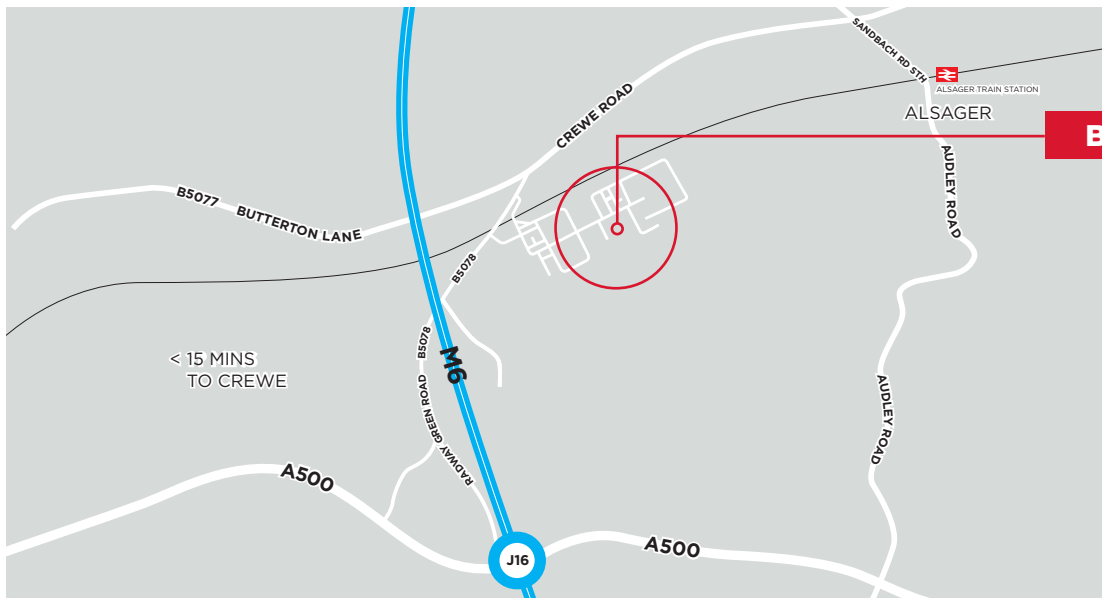
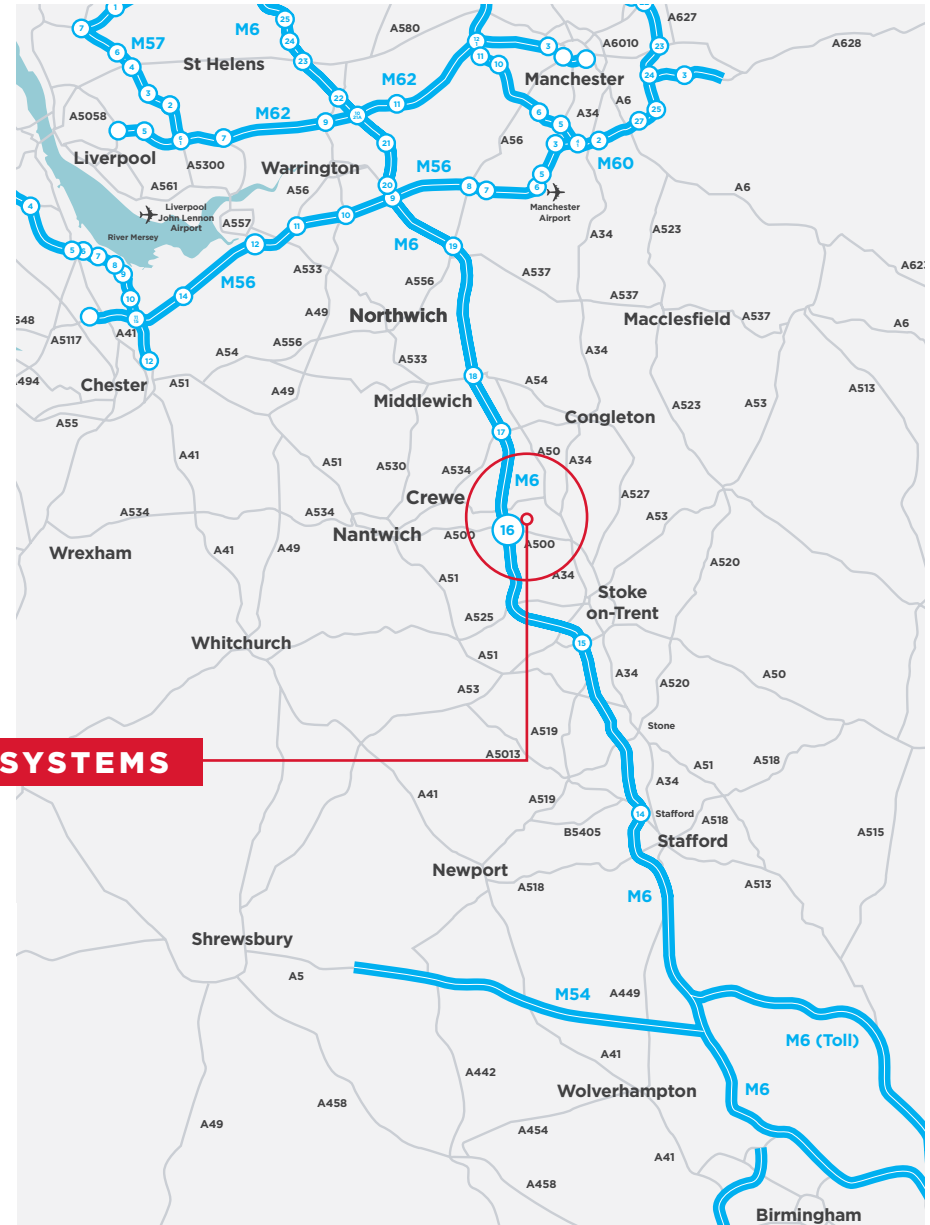
MACRO LOCATION & OVERVIEW

Crewe is the major town in the Borough of Crewe and Nantwich in the county of Cheshire. The town's historical roots lie with the railway industry and latterly automotive manufacturing.

Crewe is both a mainline railway junction and formerly the home of a major railway works, The Grand Junction Railway Company. Today's major Crewe occupiers include Bombardier Transport, Bentley Motors Limited (which is now part of Volkswagen AG) and Europe's largest oat mill, Mornflake Oats.

Despite the demise of heavy industry across the economy as a whole, Crewe has successfully maintained a balance of industrial and service occupiers. The successful development of Crewe Business Park has attracted a mix of occupiers such as Phones 4U, Tesco, Fujitsu and DEFRA.

Crewe has also become home to a satellite campus of Manchester Metropolitan University which has significantly increased the skills base in the town. The South Cheshire College has also moved its entire campus to Crewe creating extensive new facilities.



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DEMOGRAPHICS

The Borough of Crewe and Nantwich has a local population in excess of 115,000 persons with the local economy underpinned by manufacturing and distribution sector employment, which together account for in excess of 45% of employment, in comparison to 38.29% averaged throughout the UK.

LOGISTICS

Crewe benefits from being close to a number of major conurbations and has excellent transport links by road, rail, ports and also the airports. This has resulted in many distribution companies being attracted to the town including:

Tesco Direct	380,000 sq ft
Gallaghers	250,000 sq ft
Bargain Booze	180,000 sq ft
Partners Stationery	100,000 sq ft
TDG	220,000 sq ft
Bentley Motors	250,000 sq ft



ROADS

The A5078 gives excellent access to junction 16 of the M6 while the A534 connects to junction 17 of the M6. The A500 east links directly to Stoke and Newcastle and subsequently linking to the M1. Heading west, the A51 links to Chester, North Wales and Holyhead.

DRIVE TIMES

Destination	Time	Miles
Birmingham	1 hr 1 min	57
Bristol	2 hr 7 mins	138
Derby	59 mins	48
Leeds	3hr 30 mins	218
Liverpool	51 mins	48
London	3hr 19 mins	171
Manchester	47 mins	33
Nottingham	1hr 19mins	67

RAIL

Crewe has a major railway station being connected to the West Coast Mainline providing connections south to London (1hr 45mins) and Manchester (30mins), Liverpool and Holyhead. In addition, freight links are available and these will be further improved by additional sidings at Basford West.

PORTS

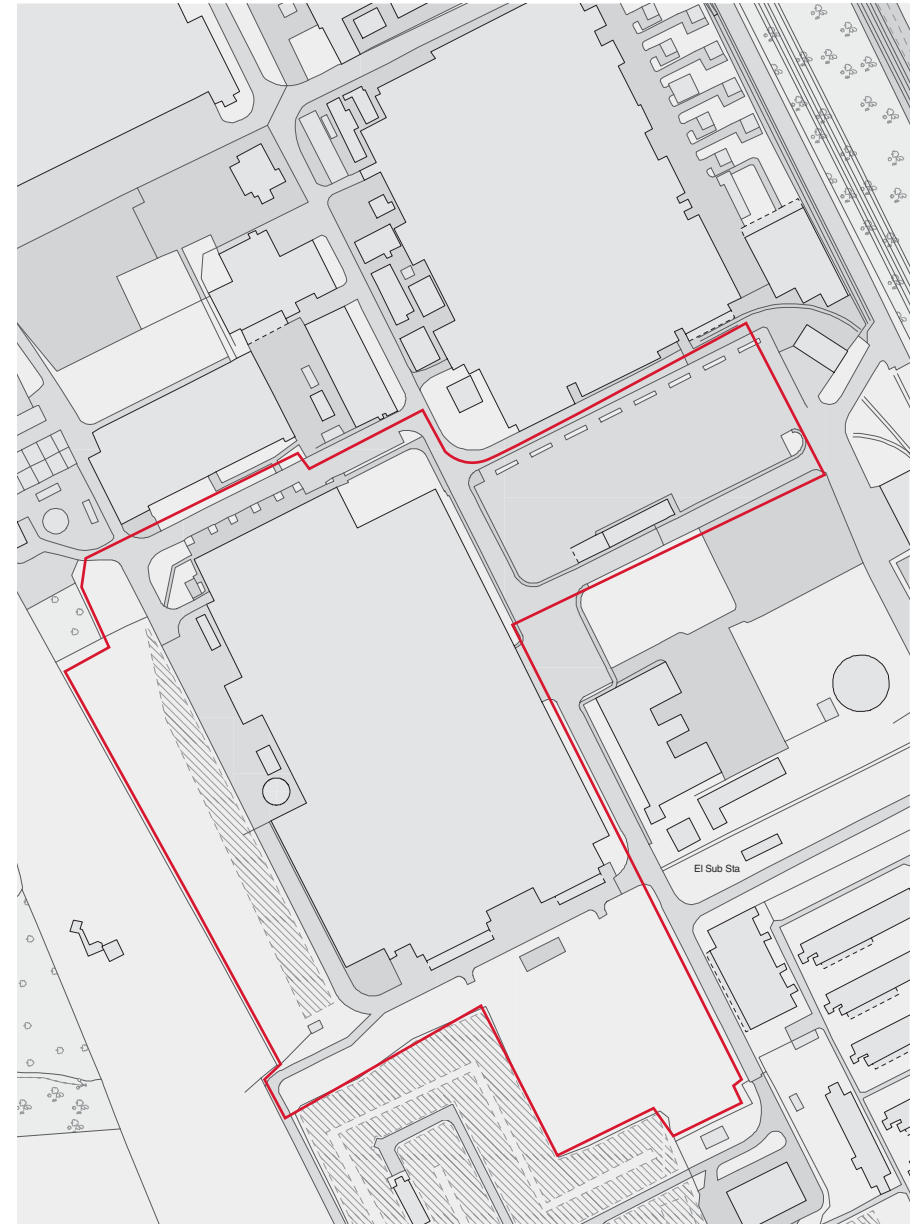
The ports at Liverpool and Birkenhead benefit from Free Port status whilst Ellesmere Port offers container and more bulk cargo facilities.

PORT ACCESS GUIDE

Destination	Time	Miles
Ellesmere Port	39 mins	30
Birkenhead	56 mins	46
Liverpool	56 mins	50
Hull	2hr 20 mins	139
Southampton	3hr 19mins	195
Immingham	2hr 42 mins	136
Felixstowe	3hr 46 mins	217

AIRPORTS

Within one hour of Crewe the airports of Liverpool, Manchester and Birmingham can all be reached.

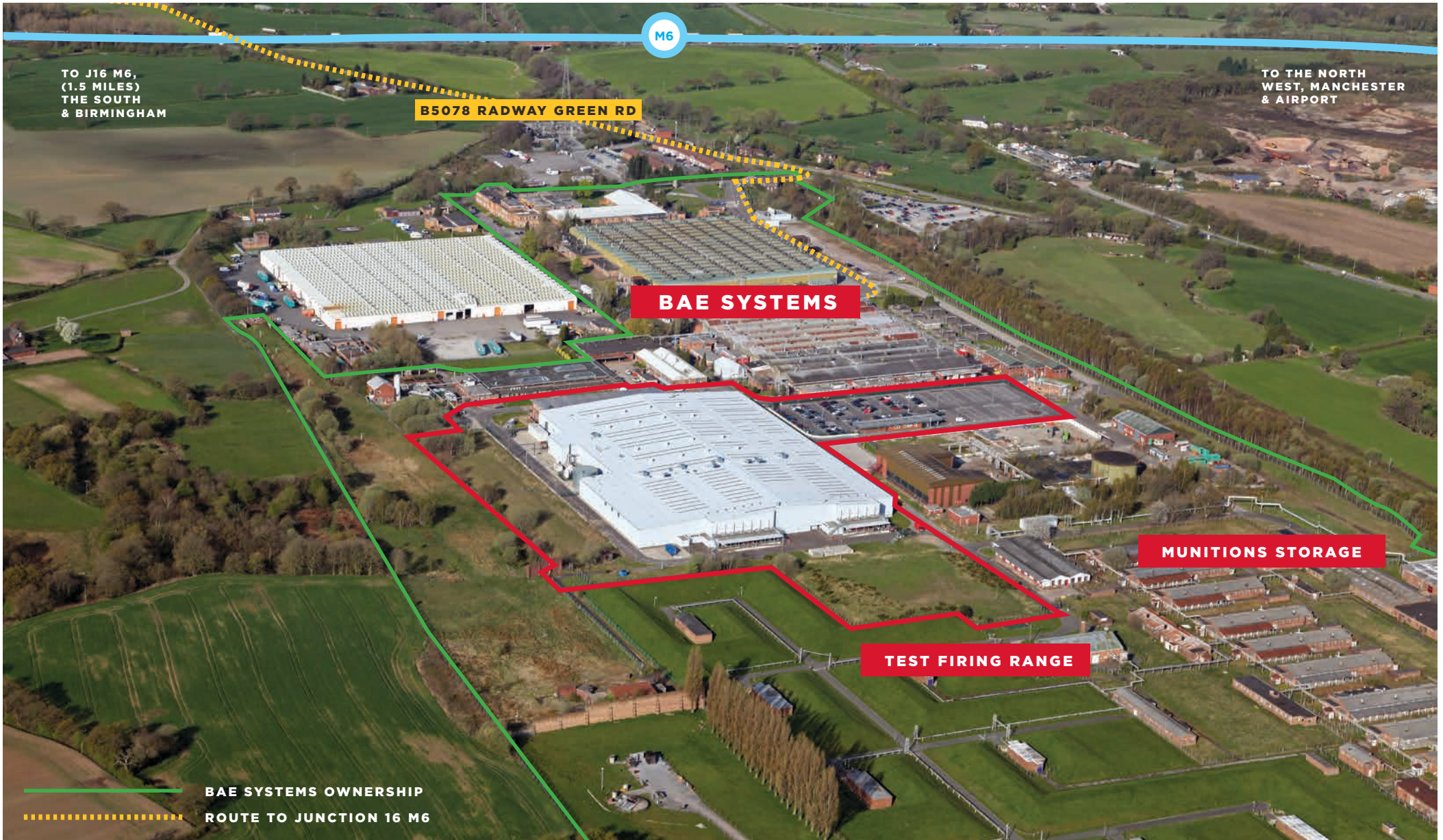


SITUATION

Radway Green is strategically situated 1.5 miles from junction 16 of the M6 via the B5078. The property is 3 miles east of Crewe, 8 miles south east of Stoke-on-Trent and 32 miles north of Manchester City Centre.

The property forms part of a former Royal Ordnance factory which has been in operation since the 1940s. BAE still own approximately 109 acres of the land which together with the subject property and various older warehouse buildings, also has its own firing range where batches of ammunition are periodically tested together with large areas for underground storage.

BAE have a planned programme for demolishing disused buildings on the site which will then create land for further new development of distribution accommodation.





DESCRIPTION

The property provides a state of the art manufacturing / warehouse facility built in 2011 for BAE Systems plc, having under the BREAM Industrial 2008 Scheme an overall rating of Very Good. General specification includes:

- 10m to eaves.
- 50kN per sq m floor loading throughout warehouse.
- Steel portal frame construction having metal clad elevations under a pitched roof.
- Heat, lighting plus full fire control sprinkler system to warehouse.
- Warehouse split between hazardous and non-hazardous areas.
- Main warehouse has loading bay including both dock level and drive in facilities.
- Rear section is mainly explosive loading areas / hazardous production area which includes blast walls and increased specification for security.
- Two storey office fronting the warehouse and amenity block being of brick construction having full raised floors, air conditioning, suspended ceilings with fluorescent lighting, carpeting throughout plus 8 person passenger lift. This area benefits from a mixture of offices, laboratories together with canteen and amenity facilities.
- Adjacent tarmacadam dedicated car park for 250 vehicles plus gatehouse.





FACILITY DEVELOPED AT A TOTAL COST OF £83,000,000





1955 - 1960

1960s

1970s

1980s

1990s

1950s: The old County Hospital, built in 1888, was replaced by the new 25000 sqm hospital. The hospital was built in 1955 and opened in 1958. It was built at a cost of £2,000,000 and was the largest hospital in the county at the time. It was built on the site of the old County Hospital, which had been built in 1888. The new hospital was built on the site of the old County Hospital, which had been built in 1888. The new hospital was built on the site of the old County Hospital, which had been built in 1888.

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ACCOMMODATION

The property provides the following approximate gross internal areas.

	Sq M	Sq Ft
Main Warehouse	23,204.8	249,777
Storage / Infrastructure	400	4,305
Gate House	60	646
TOTAL	23,644.8	254,728

SITE AREA

The site extends to a total area of approximately 12.59 acres (5.1 ha) reflecting a site coverage of 44%.

TENURE

The property is held freehold.

TENANCY

The property is let to BAE Systems Global Combat Systems Munitions Limited, (guaranteed by BAE Systems plc) on a full repairing and insuring lease expiring in October 2036 at a current rent of £2,892,853 per annum.

The lease is subject to annual rent reviews based upon 2% uplifts throughout the term of the lease. A cash flow showing the annual increases on the rent is shown under the section proposal.

The total rent is split between a base rent Cat A works and a fit-out for Cat B works.

Cat A works include - traditional landlord works for construction of the warehouse, car park and gatehouse (non hazardous).

Cat B works include - fit-out costs including blast walls, propellant feel facility, hazardous production facility, specialist foundations, sprinklers and effluent treatment plant.

The current rent of £2,892,853 per annum is split between £1,521,640 (Cat A) and £1,372,213 (Cat B).

There is a tenant's break clause at any time after 1 October 2026 (subject to 20 days' notice). In the event that the tenant breaks they have to pay a "residual rent".

The residual rent is defined as the sum of all future rents payable until the end of the lease. We are therefore of the opinion the opportunity effectively offers certain cash flow until 1 October 2036.

The tenant has a right to renew the lease for an additional 25 years beginning 2 October 2036.

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TENANT COVENANT

BAE Systems plc are a FTSE 100 company listed on the London Stock Exchange in 1981 currently having a market capitalisation in the order of £13.4bn. They have a Standard & Poors credit rating of BBB.

The company is a global defence, aerospace and security company delivering a wide range of products and services for air, land and naval forces together with advanced electronics, security, information technology and support services. The company operates primarily in the UK, the US, the Kingdom of Saudi Arabia and Australia. Further information is available at www.baesystems.com

A summary of their financial strength is highlighted below.

Sales

£18,180M 2013
£17,905M 2012

Underlying EBITA

£1,925M 2013
£1,862M 2012

Order backlog

£42.7BN 2013
£42.5BN 2012



Operating profit

£806M 2013
£1,605M 2012

Operating business cash flow

£147M 2013
£2,692M 2012

BAE HAVE JUST REPORTED 6 MONTH TRADING ACCOUNTS ENDING 30TH JUNE 2014.

FIGURES FOR THE PERIOD SHOW SALES OF £7,611 MILLION, UNDERLYING EBITA OF £802 MILLION AND AN OPERATING PROFIT OF £689 MILLION.











VAT

Election to waive exemption for VAT has been made and therefore VAT will be charged on the purchase price. It is anticipated the sale will be treated as a transfer of a going concern.

EPC

Copy of EPCs for the property can be provided to interested parties or downloaded from the Further Information section of our dataroom which can be found at www.gva.co.uk/7914

PROPOSAL

We are instructed to seek **offers in excess of £49,700,000 (Forty Nine Million Seven Hundred Thousand Pounds)** which based on the current rent would offer a purchaser a net initial yield of 5.5% net of purchaser's cost at 5.8%.

The lease provides annual uplifts based upon 2% per annum and therefore at the above purchase price the opportunity would have the following income and yield profile.

INCOME/YIELD TABLE

Year	Income (£ pa)	Yield %
2014	2,892,853	5.50
2015	2,950,710	5.61
2016	3,009,724	5.72
2017	3,069,918	5.84
2018	3,131,316	5.96
2019	3,193,943	6.07
2020	3,257,822	6.20
2021	3,322,978	6.32
2022	3,389,438	6.45
2023	3,457,226	6.57
2024	3,526,371	6.71
2025	3,596,898	6.84
2026	3,668,836	6.98
2027	3,742,213	7.12
2028	3,817,057	7.26
2029	3,893,398	7.40
2030	3,971,266	7.55
2031	4,050,691	7.70
2032	4,131,705	7.86
2033	4,214,339	8.01
2034	4,298,625	8.17
2035	4,384,598	8.34
2036	4,472,290	8.51

FURTHER INFORMATION

Should you wish to inspect the property or require additional information, please contact:

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For any other investment sales please visit:

gva.co.uk/investment

SUBJECT TO CONTRACT

SEPTEMBER 2014





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London W1J 8JR

London City

80 Cheapside
London EC2V 6EE

Belfast

Rose Building Third Floor
16 Howard Street
Belfast BT1 6PA

Birmingham

3 Brindleyplace
Birmingham B1 2JB

Bristol

St Catherine's Court
Berkeley Place
Bristol BS8 1BQ

Cardiff

One Kingsway
Cardiff CF10 3AN

Edinburgh

Quayside House
127 Fountainbridge
Edinburgh EH3 9QG

Glasgow

206 St Vincent Street
Glasgow G2 5SG

Leeds

City Point First Floor
29 King Street
Leeds LS1 2HL

Liverpool

No.4 St Pauls Square
Old Hall Street
Liverpool L3 9SJ

Manchester

Norfolk House
7 Norfolk Street
Manchester M2 1DW

Newcastle

Central Square
Forth Street
Newcastle upon Tyne
NE1 3PJ

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