

PLYMOUTH CITY COUNCIL

Subject: Langage Employment Units
Committee: Cabinet
Date: 21 May 2013
Cabinet Member: Councillor Lowry
CMT Member: Anthony Payne (Director for Place)
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Ref: Langage
Key Decision: Yes
Part: I

Purpose of the report:

Plymouth City Council is committed to promoting the growth of the local economy and the creative use of Council land and property assets to support employment. This report provides the exciting opportunity to actively promote the growth agenda and create / support up to 80 FTE jobs. This will be achieved by providing 2,787 sq m of sustainable high quality, speculative employment accommodation for small and medium-sized businesses on Council owned land at Langage Science Park, Plympton, Plymouth. The estimated cost of the project is £2.5 million and the completed and fully let development will also provide the Council with a valuable long term income stream and add to its existing commercial property portfolio.

A detailed demand and supply report has been completed (March 2013) by Jones Lang LaSalle which concluded that Plymouth has a shortage of high quality, modern employment space facilities. The cost value gap of the private sector delivering these much needed employment schemes has led to market failure to provide high quality employment accommodation in Plymouth. Therefore there is strong justification for the public sector to intervene and progress such schemes by direct development.

It is proposed that the development will incorporate sustainable technologies to minimise carbon emissions and running costs, potentially including the following: solar photovoltaic, increased levels of insulation, increased levels of natural daylight and ventilation and highly efficient heating systems.

Approval is now required to authorise the above expenditure and progress the procurement of the Main Contractor. It is proposed that this project be delivered using one of the Framework Contractors (through a mini tender competition) and that it is delivered via a two stage design and build tender process with full contractor design. The framework used will incorporate a local employment scheme to facilitate work placements and apprenticeships.

It is being recommended that Cabinet delegate their key decision to accept the tender to expedite efficient letting of the contract.

Corporate Plan 2012-2015:

Deliver Growth

This project will directly contribute to this priority by providing a supply of high quality business space. It will facilitate job creation through the feasibility/construction phase and importantly through the provision of speculative workspace. Using Government Best Practice (1 job created per 35sq m) it is estimated that 80 full time jobs could be supported as a result of this investment (excluding the temporary construction jobs). These jobs will help contribute to and increase the GVA of the area.

In addition the project will unlock additional serviced development plots (a key target under Level 2) that could be delivered in the future by PCC, sold to owner occupiers or developers.

Raise Aspirations

Currently the site is an undeveloped parcel of land which has been barricaded to prevent unsociable activities taking place. The delivery of new, high quality business space will assist in raising aspirations for existing, surrounding businesses and new businesses occupying the premises. By providing high quality facilities it will help contribute to greater business confidence, give people something to be proud of and embed civic pride.

The opportunity to occupy modern facilities will hopefully lead to more comfortable working environments for employees, which in turn will help raise aspirations and motivation.

Reduce Inequality

The provision of high quality workspace built to modern standards will help reduce inequality by making the premises fully accessible.

Provide Value for Communities

Whilst the development cost of the proposal is estimated to be £2.5m PCC has a proven track record of delivering employment space schemes which provide not only an on-going revenue stream but also an important investment capital asset.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

It is proposed that the estimated cost of the project of £2.5 million will be funded by the Council's newly created Investment Fund to promote economic growth with the net rental income generated from the completed development to be recycled back into the fund to support future investment opportunities. This will provide more flexibility for the Investment Fund as the rental income will be a future revenue resource rather than capital.

A Government initiative has recently been announced that will enable all new developments (completed after October 2013) to benefit from rates relief for a period of up to 18 months. The introduction of this initiative will remove a significant risk relating to holding costs.

A detailed marketing strategy will be prepared prior to the construction phase and as construction work commences the units will be offered to businesses on open market rental basis. A marketing budget has been included within the costs.

As the units will be newly built, a minimum one year maintenance programme will be incorporated in to the construction contract – this will assist in mitigating against any future on-going revenue expenditure.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management

This project will help address the following issues:

Child poverty – through the provision of additional workspace it will assist business growth, create new job opportunities (including the positive impact on supply chains) and help families back into work and out of poverty.

Community Safety – the development of this site will remove/reduce anti-social behaviour that currently exists on site.

Health and Safety – during the construction phase the site will be under the full control of the Main Contractor who will be bound by the Construction Design Management Regulations.

A number of risks (High, Medium and Low) are associated with developments of this nature and that is entirely normal. An example of some of the key risks include: unfavourable ground conditions, planning consent, increased costs, delays and limited interest in the completed units. A full risk register log has been prepared and will be maintained and updated on a regular basis.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

The proposed development will be completed in accordance with current Building Regulations and statutory approvals and as such will be fully compliant with the Disability Discrimination Act 1995 provisions on design access requirements and the Equality Act 2010. A full EIA is therefore not considered appropriate for this proposal.

Recommendations and Reasons for recommended action:

Cabinet is asked to –

- (1) recommend the City Council to amend the capital programme to include £2.5m for a scheme to provide 2,787 sq m of industrial workspace at Langage;

Reason: To enable the proposed project to be added to the Council's capital programme.

- (2) approve a tender exercise using a two stage design and build procurement process for the delivery of a £2.5m direct development commercial employment scheme at Langage to provide 2,787 square feet of high quality, sustainable accommodation facilitating or supporting up to 80 full time jobs;

Reason: To ensure suitable risk transfer and timely procurement arrangements.

- (3) delegate to the Cabinet Member for Finance the authority to make the key decision to award the building contract following the tender exercise.

Reason: To expedite efficient letting of the contract.

Alternative options considered and rejected:

Property Options

An analysis of the possible options for the site has been undertaken and given the location of the site, neighbouring uses and planning information it is reasonable to assume that planning consent for B1, B2 & B8 would be forthcoming.

It is highly unlikely that any higher value uses (such as residential, retail or leisure) would be acceptable or appropriate for this site.

Project Options

1) Do Nothing

Whilst this option does not cost anything to deliver it results in the provision of no outputs e.g. jobs or provision of employment space. The site will remain as an asset and will have the on-going management costs associated with it. There will be no benefits associated with this option.

2) Do Maximum

This option would increase the density and scale of the development by constructing additional workspace across a number of plots. Whilst this may be proportionately cheaper to construct due to economies of scale there could be a negative impact on rental and capital values due to a greater supply.

3) Land Sale to 3rd Party

The freehold sale (of the development land) option would result in a potential capital receipt being secured but would fail to satisfy PCC's aspiration to create long term revenue generating projects.

The long leasehold sale proposal would provide a capital receipt and possibly an on-going ground rent payment however the long leasehold option is not attractive to purchasers or indeed the financial lending institutions.

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	
Langage Demand & Supply Report: Jones Lang LaSalle 8 th March 2013	Yes									

Sign off:

Fin	CDR/P aceF EDC00 2	Leg	17293 /DVS	Mon Off	17293 /DVS	HR		Land & Prop	JW 0013 18/4/1 3	IT		Strat Proc	CJT/I 16/12 0413
Originating SMT Member: David Draffan													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

1) Introduction

- 1.1 This report relates to a Council owned 3.09ha (6.8 acre) development site at Langage Science Park and in particular the option of delivering a new phase of development. The proposal is to deliver a high quality scheme of flexible workspace of circa 2,787sqm (30,000 sq ft).
- 1.2 The completed units will be made available to occupy by way of open market lettings. The residual development land will be available for further phases of direct development or potentially available for freehold/long leasehold disposal to third parties (developers/owner occupiers).
- 1.3 PCC historically has a good track record of proactively delivering commercial workspace through direct development. As a result this has led to the provision of a longstanding and valuable commercial property investment portfolio (comprising employment accommodation for SME businesses in the city and helping improve the GDP). Importantly, these assets also provide a valuable source of long term secure revenue income for the Council.
- 1.4 The proposed expansion (through this proposal) of Langage Science Park will help create and safeguard new job opportunities as well as promoting growth and providing PCC with a long term revenue stream. Using Offpat Guidance on Job Density (A Government Best Practice Note) it is estimated that the proposed 2,787sqm scheme will facilitate and support circa 80 jobs (1 job per 35sqm).

2) Site Location

- 2.1 Langage Science Park is located on Plymouth's eastern boundary close to the A38 Devon Expressway. Whilst owned by PCC it lies within the physical boundaries of South Hams District Council and in the Parish of Sparkwell.
- 2.2 Plymouth is the largest city in the South West peninsula with a population of approximately 255,000 and an estimated retail catchment of 350,000 within a ten mile radius of the City Centre.
- 2.3 The PCC owned development land is located off Beechwood Way within Langage Science Park, which is to the northern side of the of the Langage Industrial Estate. Langage now includes a rich diversity of business space including the traditional distribution and manufacturing occupiers together with call centres, car showrooms and offices.
- 2.4 The development site is strategically located close to the Deep Lane junction off the A38 Devon Expressway, providing swift and easy access to the local, regional and national road network.
- 2.5 The site plan at Annex I identifies the development plot at Langage Science Park.

3) Site Description

- 3.1 The 3.09 hectare (6.8 acre) site is relatively level although there are mounds of spoil which have presumably come from previous phases of development or the infrastructure works.

- 3.2 The site appears to be fully serviced and accessed although the road is blocked off to prevent fly tipping and gypsy/traveller unauthorised encampments. The road is in a relatively poor state and is unlikely to be currently adopted although it appears to have been originally constructed to adoptable standards with street lighting, pavements and cycle ways.
- 3.3 Searches have been undertaken with regards to the availability of utilities/services including water, gas, electricity and BT. These all appear to be present within the boundaries of the site and confirms that they were probably included as part of the road extension project referred to under 'Planning Status' below.
- 3.4 A formal search has also been undertaken looking into the historic uses of the site, potential sources of contamination and environmental risks and this has identified no major issues or concerns.

4) Background

- 4.1 The 3.09 ha site has been in the ownership of PCC for a number of years and in October 1999 planning consent was granted to deliver an extension to the existing Beechwood Way road resulting in the creation and provision of additional employment land for development.
- 4.2 Whilst there is limited information available it is assumed that the road and service infrastructure project commenced shortly after planning consent was approved. The condition of the road certainly indicates that it was built a number of years ago.
- 4.3 In addition to the road infrastructure project PCC also undertook some direct development of high quality commercial premises which are fully let and income producing.
- 4.3 A review of the available information has been undertaken and there does not appear to be any onerous conditions or issues associated with the site.
- 4.5 On two previous occasions (2006 and 2011) negotiations were entered into with 3rd parties for the freehold sale of part of the site (circa 1.38ha). These both failed to complete and consequently the land remains undeveloped.
- 4.6 In December 2012 the site was identified as a priority for direct development and an Initial Project Proposal prepared, submitted and approved. Since this date the project has progressed and further work undertaken including a demand and supply report, development appraisals, environmental checks and utility searches.

5) Planning Status

- 5.1 The site sits within the South Hams District Council boundary and lies within the Langage employment site policy area. The land use is restricted to light industrial, office, high technology, general industrial or warehouse.
- 5.2 Subject to planning, funding and PCC approval the land is ideally placed to provide further phases of B1, B2 and B8 accommodation.

6) Demand and Supply Information

- 6.1 An independent Demand and Supply report completed by Jones Lang Lasalle in March 2013 positively concluded that:

- Langage is in an ideal location with good access to the A38
- The delivery of B1, B2 and B8 employment space is wholly appropriate for this location
- There is limited developer activity across Plymouth and the wider area
- The supply of 2,787sqm in a single phase is appropriate
- There is likely to be good latent demand for high quality employment space

6.2 The above has also been reinforced by the Plymouth Manufacturer's Group (PMG) which, in their 2012 Sites and Premises Survey identified that:

- There has been a lack of supply of high quality employment space of the right size (400sqm - 929sqm) over the past few years. This is constraining SME businesses in the Plymouth travel to work area
- 20% of firms feel that their premises inhibit their growth
- 35% identified not being able to find appropriate premises (size and quality)
- 70% feel that the supply of sites/buildings is inadequate, inappropriately located and/or priced

6.3 This is further supported by the Plymouth Chamber of Commerce who stated the following:

- Not enough modern space available in the market
- Need to provide a supply for latent demand
- New supply will help stimulate the economy
- Need to cater for SME businesses
- Provide property that is attractively priced

6.4 In addition to the above, PCC own a substantial amount of commercial property assets and these are currently in excess of 95% let. This statistic demonstrates a shortage of supply and high demand for the right space.

6.5 Supply:

6.6 The report looked in detail at the existing supply of commercial workspace and identified:

- There is approximately 92,000 sqm of available commercial space within the Plymouth area. This represents less than 5% of the total estimated floorspace that exists in the Plymouth Market or in other words 95% of Plymouths industrial and office space is successfully let or occupied. A large proportion of this stock is older and of a much lower quality than that proposed within this report.
- There are very few, (if any) new build, high quality opportunities available on the market for lease or purchase.

- Private sector development has reduced significantly due to market failure and a widening of the cost value gap.
- There is a lack of high quality, flexible and modern commercial accommodation of the right size (370 sq m – 929 sq m).
- There appears to be a reasonable supply of older, smaller industrial accommodation (up to 370 sq m).

6.8 Demand:

- 6.9 It is difficult if not impossible to predict the demand for new industrial and commercial premises as the market is complex and vulnerable to fluctuations in the wider economy.
- 6.10 Through the findings of the report it can be concluded that a large proportion of the 2012 take up (26,058 sq m) was taken up for manufacturing uses and ranged in size from 140 sq m to 5,580 sq m. This predominantly comprised older, lower quality stock and provides strong evidence to suggest there is a lack of available modern facilities for businesses to occupy – therefore demand should exist for higher quality space.
- 6.11 The PCC Land and Property Team have had discussions with Local Agents and reviewed the market generally. This has identified that whilst the last few years have been challenging there is a requirement for good quality employment space. This is evidenced through the PCC commercial property portfolio being extremely well let.
- 6.12 The delivery of speculative accommodation tends to satisfy a latent demand. This has been proven in the past by developers such as Priority Sites Ltd and the former South West RDA, who were very successful at delivering high quality, speculative schemes and finding occupiers for the completed buildings.

7) **Options Analysis**

7.1 Property Options

- 7.2 An analysis of the possible options for the site has been undertaken and given the location of the site, neighbouring uses and the above planning information it is reasonable to assume that planning consent for B1, B2 & B8 would be forthcoming.
- 7.3 This could also potentially attract interest from trade counters who have traditionally paid a premium to occupy such premises. However, the economic climate has probably narrowed this gap.
- 7.4 It is highly unlikely that any higher value uses (such as residential, retail or leisure) would be acceptable or appropriate for this site.

7.5 Project Options

1) Do Nothing

Whilst this option does not cost anything to deliver it results in the provision of no outputs e.g. jobs or provision of employment space. The site will remain as an asset and will have the on-going management costs associated with it. There will be no benefits associated with this option.

2) Do Maximum

This option would increase the density and scale of the development by constructing additional workspace across a number of plots. Whilst this may be proportionately cheaper to construct due to economies of scale there could be a negative impact on rental and capital values due to a greater supply.

3) PCC Direct Development (preferred option).

Paying due regard to the above it is proposed that the site be used for high quality factory development (to include an appropriate amount of office content), although given its overall size (3.09 ha) it will need to be undertaken on a phased basis.

Considering the success of previous schemes by PCC at Langage, it is proposed that PCC take a proactive approach and progress another phase of commercial development by direct delivery. The provision of further high quality, flexible workspace will help meet a variety of needs from potential end users.

In order to minimise the risk a cautious approach needs to be taken and a sensibly sized project promoted so as to not over supply the market. The Demand and Supply report indicates that provision of flexible workspace is key and that by delivering it in phases of 2,320 – 2,787 sq m (which is sub divided into smaller units) it yields construction cost savings through economies of scale.

In addition an allowance for a void period needs to be factored in and for the purposes of this proposal a 12 month void across the scheme for the first 5 years has been assumed. It is worth noting that for new employment space schemes completed after October 2013 that there is a an 18 month Business Rates Free Period – this will significantly de risk the potential holding costs of the scheme and make it more attractive to deliver.

The direct development option would result in an investment asset over the longer term (20 years plus) and the provision of a revenue income through the leases in the short/medium term (1 – 20 years). There are of course risks associated with delivering a speculative development and these are set out in section 9 below.

Land Sale to 3rd Party

The freehold sale (of the development land) option would result in a potential capital receipt being secured but would fail to satisfy PCC's aspiration to create long term revenue generating projects.

The long leasehold sale proposal would provide a capital receipt and possibly an on-going ground rent payment however the long leasehold option is not considered attractive to purchasers or the financial lending institutions.

8) Development Appraisal

- 8.1 A detailed development appraisal has been completed and used in the preparation of this report.

8.2 Costs and Values

- 8.3 Assumptions have been made at this pre tender stage as to the likely cost of development. It is anticipated that to deliver a good quality scheme of 2,787 sq m it will cost approximately £775 sq m (£2.16m) plus professional fees and other associated costs (£340,000) equating to £2.5m in total. The value of PCC's land has not been included in this calculation.
- 8.4 The asset value immediately upon completion has been estimated to be £1.85m which is based on a rental of £59.18 per sq m (£5.50 per sq ft) and a yield of 9%. However, it is unlikely that PCC will wish to immediately dispose of the investment (particularly given the cost value gap of £665,000) instead preferring to retain and benefit from the investment long term.
- 8.5 It is proposed that the scheme will be funded by the Council's newly created Investment Fund to promote economic growth with the rental income generated from the completed development to be recycled back into the fund to support future investment opportunities.

8.6 Short Term View

- 8.7 A development appraisal undertaken on a residual basis produces a deficit/cost value gap of £665,000. This is based purely on a build it and sell it on Practical Completion basis. Clearly it is not economical for the private sector to be delivering schemes on this basis but to put it into the context of a cost per job it can be established that if the scheme supports 80 jobs then it will cost £8,313 per job.

8.8 Longer Term View

- 8.9 A detailed discounted cashflow has been prepared for the scheme showing a Net Present Value (NPV) of £869,113 assuming a 20 year holding period and a notional cost of borrowing at the current 3.9% Local Authority prudential borrowing rate and a discount rate of 4%. Further sensitivity analysis has been undertaken at discount rates of 5% and 6% to reflect higher risks in terms of voids etc, however these still demonstrate that the project can return a positive NPV over a 20 year period.
- 8.10 It should be noted that an assumed rental increase takes place on each five year term equating to an overall increase of 27% over 15 years. This is not considered to be unreasonable.
- 8.11 Initially the cost per job for PCC stays the same at £8,313 but by taking a longer term approach of holding the asset it should be possible to secure a valuable income producing asset where the cost per job diminishes and a positive cash position achieved. This can be evidenced through historic phases of direct development by PCC which are owned outright and producing very good annual rental returns.

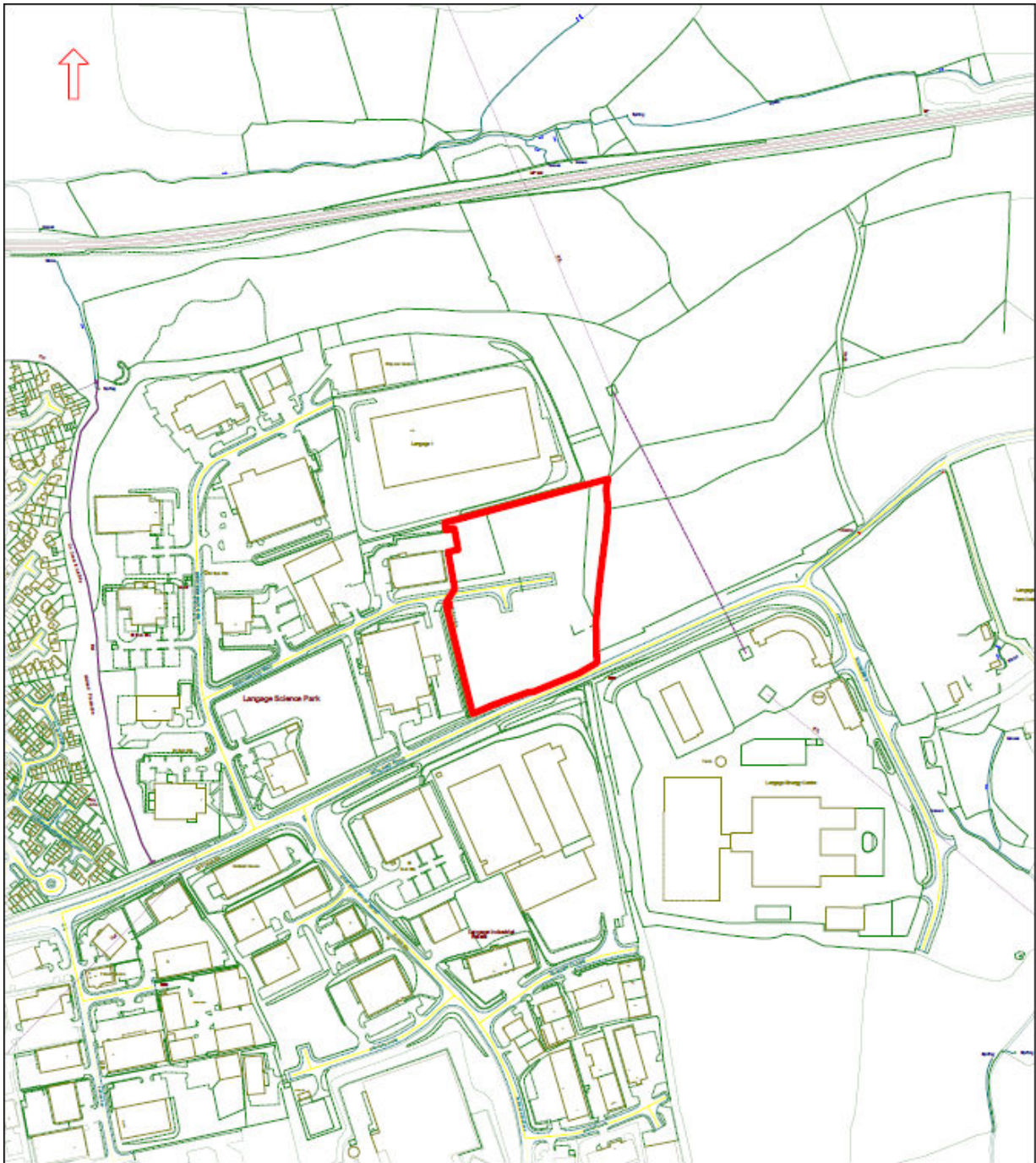
9) **Risks**

- 9.1 As with any project there will always be risks however if a proactive approach is taken measures can be implemented to try and minimise the risks. Below is a project risk register setting out the key risks which will be updated as the project proceeds.

No	Risk Element	Outcome or Mitigating Action	RISK High Medium or Low
1	PCC do not wish to proceed with this proposal	Site stays as it is or is marketed to 3 rd parties. Potential on-going management responsibilities.	Low
2	PCC decide to proceed with the feasibility work only.	Some initial feasibility/pre development work will be undertaken at a cost of circa £50,000. This would not necessarily be lost and could be used again in the future or used to increase the value of the land i.e. if it has a detailed planning consent it could be worth more.	Low
3	Appointment of professional team	It will be essential to ensure the right team are appointed to deliver the scheme and conduct the initial feasibility/pre-development work.	Low
4	Scheme Size changes	The size of the scheme will be dependent on the optimum layout on specific plots. A review of each option will be undertaken and an assessment of costs and risks of each.	Low
5	Unfavourable ground conditions or other unknown abnormal costs	A comprehensive SI will need to be carried out on site. Given the original infrastructure project this is deemed to be a low risk.	Low
7	Planning	Work with professional team and PCC to ensure an appropriate scheme is progressed and approved.	Low
8	Increased Costs of development (either at feasibility stage or tender stage)	The professional team will keep careful control over the financial budgets. Due consideration will need to be given to value engineering if this becomes an issue. The appraisal used for this proposal is based on previous experience of delivering similar projects and includes a contingency.	Medium
9	Delays due to inclement weather	When the scheme is on site it is usual to experience delay due to weather and this will be monitored closely by the professional team. A contingent allowance will be factored into the programme.	Medium
10	Limited interest in the units	A void period (12 months) has been built into the appraisal over the first 5 years although it is of course hoped that the premises will let within this timeframe	Medium
11	Holding costs	If the above void is exceeded then this will directly relate to the net rental income available to be recycled into the investment fund	Medium

Annex I

Langage Site Plan



**LAND & PROPERTY TEAM
ECONOMIC DEVELOPMENT**

TITLE	Development Land at Beechwood Way Langage	Map ref: SX5656 Drawing ref.:	Scale 1:5000 April 2013
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