



# Development Strategy

August 2017

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## Oakham Enterprise Park Development Strategy

### 1. Background

- 1.1. Oakham Enterprise Park (OEP) was purchased by the Council from the Ministry of Justice (MOJ) in December 2012 for the sum of £1.4m (including purchase costs of £55k stamp duty & £5k legal costs). A further £1.38m was spent on building upgrades, refurbishment, demolition & design fees. Other costs including survey fees, whole site costs, roads & project management totalling £0.7m brought the total initial project cost to £3,482,655 against a project budget of £3,482,500.
- 1.2. Funding was provided by a 10 year interest free loan from the LEP (£630k), S106 contributions (£350k), with the remainder (£2.5m) taken from capital receipts.
- 1.3. The site was purchased to boost the local economy, attracting inward investment and supporting businesses in creating new and safeguarding existing jobs. The aim was to provide over 100,000sqft of affordable floorspace for office, industrial & storage use whilst creating a significant new revenue stream primarily from rent but also from business rates for the Council.
- 1.4. A condition of the sale of the site from the MOJ requires that, in the event of the sale or lease of any part of the site for retail or residential use within a 25 year period (i.e. before 2037), 50% of any uplift will need to be paid back.

### 2. Current Position & Future Demand

- 2.1. OEP is now operating at capacity with nearly all of the available 106k sqft internal floorspace (c.105 business units) being let. Vacancies are due to void periods or buildings being temporarily removed from the market to enable remedial works to take place and at the time of writing, vacant units have strong interest in them.
- 2.2. Further capital investment is therefore required to facilitate new buildings before the site can accommodate additional business tenants.
- 2.3. For Rutland as a whole, an additional 29.09 hectares (72 acres) has been calculated to be required by 2036 as part of the Council's Employment Land Assessment (update January 2016) which uses commercial land take-up data from 2006/07 to 2014/15 to make the forecast.
- 2.4. This report has also demonstrated that there is need for further start-up and micro business accommodation, particularly to meet workshop and

storage needs. The report finds that such provision should be considered at key locations. Given the scale of development and the progress already made OEP is ideally located to particularly address this need and is one of the few areas around Oakham where capacity exists in terms of available space.

- 2.5. In the context of a decision by the Council as part of its continued investment at Oakham Enterprise Park (OEP) to promote the economic, environmental and social well-being the area. This strategy sets out the methodology to be adopted in selecting sites for development. It focusses on the economic test that will be applied and in particular the returns (economic, financial and wellbeing) that the Council have set as a minimum.
- 2.6. The methodology adopted should reflect a suitable balance between the risks inherent in the types of property to be developed and the financial rewards obtainable from those developments, limiting such risks appropriately.

### **3. The Investment Test**

- 3.1. The objective of this exercise is to ensure that investment into OEP continues to facilitate the economic development of Rutland and attract inward investment.
- 3.2. To ensure that the development provides an acceptable financial return a net yield should not normally be less than 5%. Factors that will be taken into account when considering the net yield will include:
  - 3.2.1. Acquisition Costs of the site
  - 3.2.2. Initial Capital Investment into the asset
  - 3.2.3. Capital Repayment of the initial investment
  - 3.2.4. Void Costs
  - 3.2.5. Management Fees
  - 3.2.6. Service Charges
  - 3.2.7. Other benefits from the investment such as NNDR, employment etc.
- 3.3. This represents a high net yield although it should ordinarily be achievable. However, it should be noted that typical yields from alternative investment models are likely to be much lower than 5% and as such, investment projects providing a slightly lower yield should still be considered.

- 3.4. In addition, financial yield is not the only benchmark. The option to proceed with a project will be determined by a number of factors including the overall benefit that a project will bring. Whilst the yield is important, economic, social and wellbeing are other key factors to be considered.

#### **4. Development Opportunities at OEP**

- 4.1. Any future development on the site needs to consider the original objectives supporting the acquisition of the site. These are embedded within the Council's Strategic Aims & Objectives. For this reason, each proposed development will be judged against the criteria set out below:
- 4.2. Employment - supporting growth, in particular SMEs
- 4.2.1. Provision of buildings of a suitable size, type & tenure that facilitate business start-up, retention & growth
  - 4.2.2. Facilitating business start-up & early stage business support
  - 4.2.3. Improving performance of mature businesses on site
- 4.3. Redevelopment - ensuring the impact of development is managed
- 4.3.1. Development will contribute to creating a sustainable & accessible location for new employment facilities
  - 4.3.2. Securing brownfield site for regeneration which might otherwise be lost to land banks or inappropriate development
- 4.4. Learning linked to employment – raising the profile, availability & take up of vocational training & apprenticeships
- 4.4.1. Promoting vocational training & apprenticeship opportunities through provision of appropriate space
  - 4.4.2. Integrating opportunities with partner supported apprenticeships & learning
- 4.5. Active Rutland – adequate & affordable health & fitness opportunities including the supporting infrastructure
- 4.5.1. Reusing existing sports facilities for wider community use
  - 4.5.2. Retaining & improving local club status & membership
  - 4.5.3. Creating a sustainable & accessible location for health & fitness opportunities

- 4.6. Capital funding is being sought to facilitate an initial development of 20ksqft (Phase 2a) but there is capacity for significant additional commercial floorspace across the site with the potential to generate significant new revenue from rental income and business rates for the Council.
- 4.7. However this should be looked upon as the initial investment into the site. In the longer term the strategy adopted should ensure the mixed development needs of the site are continued, focusing on education in the education zone and a mixture of recreational, industrial and commercial uses over the remainder of the site.
- 4.8. Following a feasibility study conducted via consultants, Ridge & Partners LLP, a draft development plan has been produced and is attached as APPENDIX B.
- 4.9. This plan includes new road infrastructure capable of providing compliant access for vehicles up to HGV size to all current and proposed areas of the site. The proposal allows for industrial zones to be constructed further away from nearby residential properties with smaller office buildings constructed close to Ashwell Road.
- 4.10. Incorporation of a major new road (Road A) between the main gate to the rear (eastern) areas of the site means that the area currently used as the central car park can also be developed with new buildings. It is proposed that the Active Rutland Hub will be serviced by the Gate 2 car park with a new paved link to facilitate pedestrian access. This will help to improve pedestrian safety around the site.
- 4.11. The main gate, currently only wide enough for a single vehicle to pass will be widened and improved to enable two-way traffic and new totem signage will be added.
- 4.12. Just under 12 acres of land is currently available for development at OEP. Around 8.2 acres of this land already has planning consent for B1 (office), B2 (industrial) and B8 (storage/distribution) use with the remainder being the grass field area which was excluded from the original planning application as there were some concerns at the time around the cessation of use of this area as the former prison sports pitch. Recent liaison with Sport England suggests that, with the significant improvement in sports facility provision around Oakham, this is no longer a concern.
- 4.13. External areas are proposed to be developed in accordance with the assessment criteria in section 4 although there is a possibility that a single large tenant might be secured. OEP has already been approached by several large organisations seeking up to 100ksqft of industrial space which demonstrates that there is a growing demand and that securing a

single large tenant for one or more of the remaining areas at OEP is likely within the next 5 - 10 years.

- 4.14. Development should continue to support the existing tenants with any expansion plans (i.e. 'growing on space'), encourage further start up business and also facilitate larger scale expansions for business new to OEP.
- 4.15. The principle of being relatively risk-averse by limiting fresh development to firm interests for the type of unit and need within the County.

## 5. Opportunities for future expansion

- 5.1. There are areas of privately owned land to the north & south of OEP which may be suitable for future development by the Council subject to planning permission and successful negotiation with the owners.
- 5.2. Two of these lie to the north and with a distance of just 82m (across an agricultural field) separating OEP from the Ashwell Depot site to the north, there is a clear opportunity for the two sites to be linked.
- 5.3. Appendix C shows an annotated aerial photograph with Oakham Enterprise Park outlined in red, Ashwell Depot shown in yellow and Ashwell Business Units in blue. Rutland Village (Ashwell Garden Centre) is shown in green.

## 6. Site disposal options

- 6.1. Disposal of all or part of the OEP site remains an option but clearly the length of active leases needs to be borne in mind. At the time of writing, Unit 17 has the longest lease (15 years), terminating in October 2030.
- 6.2. There are areas of the OEP site which remain undeveloped including the Events Zone (3 acres) and Grass Field (3 acres). These are currently proposed for commercial development but residential use, whilst currently at odds with the Local Plan, may become an option in the future. The addition of the Gate 2 car park area (3 acres) located immediately to the rear of the existing residential site, Burley Crescent, is likely to offer a better option.
- 6.3. Using a typical housing density of 40 units per hectare, a shift to residential development in the above areas at OEP is likely to provide space for up to 150 new homes with a post planning permission land value of around £6.6m (based on DCLG land value estimates Feb 2015).
- 6.4. It is possible that land outside OEP could be purchased and developed in a similar manner. For example, a field to the south of OEP would hold a potential value at £7.7m for residential development. Initial approaches to

the landowner however suggest that this is not currently an option although other areas, although less favourable for residential development may be more feasible.

## 7. Assessment of risks

- 7.1. A rigorous assessment of all risks is required in each case of fresh development in order firstly to value each proposal and then to check its suitability for inclusion within the site. The risks fall into two categories, firstly economic and market risks and secondly development specific risks (as set out below). These can be measured and an assessment made of the likely future performance of the development carried out based on the ranges of likely future rental growth of the property and also the socio-economic impact for the county. Financial returns are modelled over a medium-term horizon of five years, based on proposed development prices, to determine the acceptability of each development, and can be compared against general market forecasts.
- 7.2. The financial return will be calculated as per section 2. Calculations will be carried out to model the expected cash flows from each development. The anticipated returns can be modelled on different bases to reflect the range of risks applicable in each case, to ensure that forecast returns properly reflect the measured risks. In this way a Business Case is put together to support each recommended development phase.

## 8. Asset-specific risks

- 8.1. Each development phase will depend principally on the following five main characteristics:
  - 8.1.1. Building specification quality
  - 8.1.2. Length of lease expected
  - 8.1.3. Financial credentials of tenant
  - 8.1.4. Rental levels payable relative to current open market rental values
  - 8.1.5. Non-financial benefits e.g. job creation.
- 8.2. See Appendix A (risk matrix) for details of anticipated development risks.

## 9. Building specification & quality

- 9.1. New office buildings are likely to include modular designs which can have a lifespan exceeding 25 years. Construction time is much faster, normally measured in weeks, which allows the Council to be very responsive to tenants' requirements and the buildings can ultimately be relocated to

other areas of the site if required. However, this will be determined by the quality of the development proposed.

- 9.2. Industrial units are likely to be steel frame portal buildings with external cladding. This will enable flexible sub-division as required depending on tenant requirements at any given time.
- 9.3. All structures will be designed to meet current building regulation standards.

## 10. Length of lease

- 10.1. Lease terms currently at OEP typically range from 12 months to 5 years although Unit 17 (commercial kitchen facility) currently has a 15 year agreement in place. Bearing in mind the level of investment likely to be required by tenants seeking to occupy larger buildings, longer leases of up to 20 years should not be ruled out.
- 10.2. In areas of the site which are likely to require redevelopment, shorter leases will be granted or leases will have rolling break clauses which ensures the Council will retain optimum flexibility with the site.
- 10.3. Leases will ordinarily be aligned with the needs of the tenant but protection of the future requirements of the Landlord will also be borne in mind.
- 10.4. Financial strength of tenant(s) – assessment will be required of each tenant of potential developments through analysis of their published accounts and management accounts where necessary. Risk of tenant default in rent payment is the main issue but the relative strength of a tenant's financial standing also impacts upon capital value of property which is let to that tenant and careful analysis of financial strength is a key part of due diligence prior to commencement of development.
- 10.5. All new tenants will be subject to due diligence checks in line with established tenancy procedures which have been agreed with internal audit. These will include comprehensive financial checks for existing businesses especially where annual rent is above £5k pa.
- 10.6. New and start-up companies will clearly present more of a risk but debt will be closely managed with arrears of more than one month being reported to the OEP project board and eviction procedures commenced rapidly where necessary. A standard minimum deposit equivalent to three months' rent will be required with all new leases. Any exceptions will be agreed with the project board.
- 10.7. Leases will generally be contracted out to give the Landlord flexibility to regain control of the unit at the end of the lease.



## 11. Rental levels

- 11.1. Rents at OEP will vary depending on the location within the site and layout and quality of the unit and wider building.
- 11.2. These are set to be in line with local market rates and leases include regular review clauses to facilitate rent increases when market conditions change.
- 11.3. Rents will be set at a level necessary to provide the desired yield where this exceeds the local market rate. If the market rate does not meet the target yield or any other objective as specified above, the project will not normally proceed unless there are overriding other benefits.
- 11.4. Environmental and regulatory risks - Risks such as flooding, energy performance, building regulations and planning are taken into account during the due diligence process on every development.

## 12. Non-Financial benefits

- 12.1. Whilst the site is generating a steadily increasing revenue stream for the Council, there are a number of other benefits to be had from its development.
- 12.2. Employment opportunities continue to be created by tenants as they grow. Associated apprenticeship & traineeship placements provide educational benefits and the site has strong links with Peterborough Regional College and the Rutland Adult Learning Hub, both of which have an on-site presence.
- 12.3. Increased business take-up generates an increase in inward investment into Rutland. This includes personal spend by staff & business clients in local shops, cafes and trade suppliers during the working day.
- 12.4. Reputational risks – There exists a policy on specific types of commercial tenant which may not be acceptable to the Council such as tobacco, gambling or alcohol-related companies could be adopted. Properties tenanted by such companies would not then be considered for development. However, this would not necessarily protect the Council in the event of a future transfer of any tenancy to a prohibited company.
- 12.5. There will be a clear synergy between OEP and the Council's other commercial assets, particularly the new King Centre at Barleythorpe and the St George's Park proposal at North Luffenham.

## 13. Approval of Developments

- 13.1. Approval will be required from the Director for Places (Development & Economy), in consultation with the Cabinet Member with portfolio for Growth, Trading Services & Resources (excluding Finance) and the Project Investment Board (formerly OEP Project Board) before any development plans will be progressed.

#### **14. Document Review**

- 14.1. To reflect the changes to the property market the Development Strategy will be revised every 2 years or more frequently if the market changes.

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APPENDIX A – Risk matrix

Risk	Likelihood/ occurrence	Impact	Action to mitigate
Delay in finding tenant for property	Medium	High – capital spend will be committed without revenue income for an amount of time	Ordinarily, plans would be drawn up and an accurate build cost confirmed. An agreement for lease would be drawn up and signed by a potential tenant prior to works commencing on site. This will minimise the Council's exposure to risk of having an empty unit. There is the risk of an existing lease ending resulting in a void period but this would be accommodated by factoring a void provision into the annual revenue budget
Works on site delayed	Medium	Medium – Under an agreement for lease, a long-stop date would be established and the Council might risk losing a tenant or compensation for delay being sought	For smaller leases the amount is likely to be minimal. For large buildings a framework contractor would normally be used and in any case there would be a 'pain/gain' clause in the contract so that the Council would have the right to seek compensation from the contractor for any significant delay.
Change in market conditions	Medium	Low – a change in economic/market conditions may see the requirement for floorspace change, e.g. it may become difficult to find tenants for larger buildings if demand shifts	Buildings will be designed with flexibility in mind so that they are relatively easy to sub-divide in order to provide multiple smaller units if required.

		significantly towards smaller units.	
Planning Policy changes	Medium	High – a shift in planning policies, particularly local plan policies could rule out certain types of development, most likely to be related to residential development either within or outside the OEP site. Also commercial development outside of the core OEP site.	Liaison with the LPA will be ongoing and strategic development decisions made taking advice into account.

## APPENDIX B – Proposed Site Layout Plan



**Notes**

Road layout to comply with the 6C's Design Guide. Car parking standards also to comply with the guidance.

Note: Office one space for every 30sqm  
General Industry one space for every 55m<sup>2</sup>  
Warehousing one space for every 120m<sup>2</sup>



APPENDIX C – Potential expansion areas

