Business and Property Committee

Item No……

Report title:	**Norwich Airport Industrial Estate**
Date of meeting:	**18 October 2017**
Responsible Chief Officer:	**Executive Director of Finance and Commercial Services**
Strategic impact Both Norfolk County Council and Norwich City Council recognise that the current situation of the Norwich Airport Industrial Estate cannot continue. To realise a significant opportunity to deliver increased asset value, potential for growth in non-domestic rates, rental income, employment growth and increase GVA (Gross Value Added) for the Greater Norwich area will require major reinvestment in the site. This can be undertaken by both councils, with or without a partner, or a third party in the event of a disposal.	

Executive summary

Proposals in this report are aimed at procuring expert advice to develop proposals for a partnership vehicle that will balance risk with the desired outcomes.

Recommendations:
Business and Property (B&P) Committee are asked to agree to:

1. **Acknowledge that the Norwich Airport Industrial Estate requires substantial investment to realise increased asset value, growth in non-domestic rates, increased rental income and employment growth.**

2. **The commission of the existing consultant to procure a partnership vehicle that will balance risk with the desired benefits, the details of the procurement brief and approach will be presented to a future B&P Committee meeting.**

3. **The details of the proposed type of joint venture will be presented to a future B&P Committee meeting.**

4. **The commencement of the residential element in the "Southern Development Zone" through Norwich City Council's development company.**

5. **Acknowledge that "mirror" recommendations will be presented to Norwich City Council Cabinet.**

1.0 Introduction

1.1 The County Council actively manages its property portfolio in accordance with the adopted Asset Management Plan. Property is held principally to support direct service delivery, support policy objectives, held for administrative purposes or to generate income. Property is acquired or disposed of as a reaction to changing service requirements, changing council policies or to improve the efficiency of the overall portfolio.

1.2 The Norwich Airport Industrial Estate (NAIE) is a significant property asset that is strategically located with the potential to capitalise from local infrastructure improvements and commercial/residential developments such as the Northern Distributor Road (NDR) and the residential development to the East with a phased delivery of 3,500 homes

1.3 The County Council challenges the use of its property on an ongoing basis. To this end external agents (Carter Jonas LLP) were procured to provide independent property advice to review the investigations work carried out to date and provide an assessment about whether the options proposed are achievable and provide the optimum approach in the current and likely future market conditions.

2.0 Background

2.1 The Norwich Airport Industrial Estate is owned by Norwich City Council and held on express trust for Norfolk County Council, effectively giving joint ownership. Income derived from the estate is divided 60% to Norfolk County Council and 40% to Norwich City Council. The estate is managed on behalf of the partnership by NPS Norwich Limited and the councils currently receive gross income of over £1.05m per annum (pa).

2.2 The overall site covers 564,920m² (139.56 acres/56.49 hectares) with 120,000 m² of floor space. About 90% (108,00m²) of the floor space is used for liqht general industrial/warehousing and the remainder for office use. In **Appendix 1** is a plan indicating the Norwich Airport Industrial Estate and the wider context it sits in.

3.0 Opportunities

3.1 Both Norwich City Council and Norfolk County Council recognise that substantial reinvestment in the site is required if it is concluded that there is a significant opportunity to deliver increased asset value, potential for growth in non-domestic rates, increased rental income and employment growth. Re-investment will also stimulate jobs growth and increase GVA (Gross Value Added) for the Greater Norwich area.

3.2 As a result of previous investigations two development zones have been identified and redevelopment plans prepared. The development zones indicate potential uses <u>and are subject to further market testing (to establish viability) and fit with planning policy:</u>

(i) A Southern Development Zone included plans for 20,000m² (215,300ft²) of light industrial units split into 18 units equating to 1,111m² (11,961ft²) each and delivered to BREAAM (Building Research Establishment

Environmental Assessment Method) Excellent Standard. The plans also indicated an area for 33 residential dwellings.

(ii) A Western Development Zone included development proposals for an International Aviation Academy (IAA), delivery of 100 student residential rooms linked to the IAA, an Advanced Manufacturing Innovation Centre (AMIC) consisting of 30 light industrial units extending to 70,000ft² in total with 10% office content to be delivered to BREAAM Excellent standards and 30 units around 2,300ft² each (2016 review), a budget hotel of approximately 100 rooms.

3.3 There is also the opportunity to look at whether parts of the remainder of the estate could be improved and units (when they become vacant) refurbished or regenerated.

3.4 The consultants undertook a review of the local property market. The principal findings from this assessment are:

3.4.1 Industrial Market:

- The Norwich industrial market is currently performing well with the level of existing industrial availability consistently declining since 2011.
- Demand for stock has been generally on the rise since 2012.
- Industrial rents have been (on average) rising since the end of 2015 (although prime rents have been stable for a number of years).
- The majority of stock on the market at present is dated.
- Although there is a large amount of stock in the pipeline, little has been built over the last few years indicating that there is an opportunity in the market for new, good quality space, delivered to meet current market demand, in particular 'mid-sized' units of around 5,000 to 10,000ft².
- There are a number of competing schemes in the locality, but most are restricted by clauses linking them to the airport.

3.4.2 Office Market:

- Generally stable particularly in terms of levels of available space and rental levels.
- Demand for space (principally coming from incumbent occupiers within the business services of government/Non-Government Organisations sectors) has been more cyclical with a drop in take up seen in 2016

3.5 Following the analysis of the local market the consultant has outlined in their report several redevelopment options:

3.5.1 Industrial:

- Prepare the site for development by demolishing redundant units and clearing vegetation to improve its appearance.
- Detailed designs should be created (on appointment of a chosen developer) to explore the creation of flexible light industrial terrace(s).
- Market the site on a pre let basis with unit availability from around 11,961ft² plus (as proposed in the 2016 masterplan review) although retain flexibility to deliver smaller units of say 6,000ft².

3.5.2 Residential:

- The development and disposal of residential development land remains appropriate subject to a revision of unit mix (as provided).

3.5.3 Branding:

- In respect of estate rebranding, at present, the estate is almost invisible owing to no independent brand identity through media (i.e. website/marketing particulars/adverts etc.) coupled with poor quality estate signage. Therefore this is an opportune time to start anew to establish a brand identity and communication that will attract the desired occupiers.

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4.0 Development Return and Cost Appraisal

4.1 The consultant's report included a summary of anticipated gross rental returns pre and post redevelopment of the two development zones along with the wider estate as it stands.

4.2 There is the potential to increase the gross rental income from the estate from around £1.05m pa to £4.1m pa on the basis that all of the proposed buildings are built and occupied at the anticipated rent.

There is also the opportunity to look at the management and investment in the current estate, to help retain and develop the current tenants.

4.3 The report outlines the cost for regeneration works, however further work is required to understand the extent of any works to the estate and the cost of any works.

4.4 At this point all figures should be heavily caveated. The nature of any development (for example the size of units) and therefore the capital cost and income will vary.

5.0 The Options

5.1 The consultant considered a range of delivery options for the regeneration of NAIE ranging from direct delivery by the council, use of a council owned vehicle, various joint venture arrangements and disposal. Their report concluded that a "hybrid" approach should be adopted involving a joint venture arrangement for the industrial/commercial elements and delivery via a council owned company for the residential part.

5.2 This "hybrid" approach would allow the councils to manage risk. It will:

- Allow the councils to self-develop the simpler sites (i.e. the residential sites) and realising all the financial benefits while sharing risk on more complex developments in conjunction with a joint venture development partner (i.e. the industrial units/hotel/AMIC) where they will take a profit for constructing the commercial buildings.

- Result in a higher return for the councils than the pure joint venture development partner route.

- Introduce expert market intelligence and experience to advise on the scale/makeup of the new development rather than pursuing a speculative “build and they will come” approach.

- Provide for the joint venture partner to undertake ongoing management of the whole estate. There will be mechanisms to incentivise the partner to build units which are likely to be let quickly to good tenants and maintain a high occupancy rate

- Enable both councils to provide funding on a 60/40 basis from Public Works Loan Board borrowing loaned to the joint venture partner at commercial rates meaning that no funding is required from the partner and allowing councils to generate a return from interest on the loan as another income stream.

- Limit the risk and exposure for the councils at any given time by not committing to the whole development at once but rather carrying this out on a phased rolling programme.

5.3 A number of options have been identified:

5.3.1 Do Nothing:
Both councils continue to manage the estate as existing and make no significant investment. It is estimated that within 15 years, operational costs (including empty rates payments) are likely to come close to rental income destroying any opportunity for surplus. The estate is ageing and a number of ‘rival’ products will be launched onto the market over the next five years and it will be become increasingly difficult to attract new tenants.

5.3.2 Minor Improvement Works:
For a sum of £3-5m some minor works could be undertaken to selected buildings and the estate. Whilst this appears to be a significant sum it will not provide any new space or industrial units.

5.3.3 Proceed with the development as recommended by the consultant i.e. seek a partner to form a “joint venture” for the commercial elements and take forward the delivery of the residential element via a council owned company. This approach will provide expert private sector advice whilst allowing the Councils to have a high degree of control. Use of the city council’s existing company, Norwich Regeneration Ltd, would be a convenient vehicle for the residential development. This may require establishment of a subsidiary given the joint ownership of the NAIE.

5.3.4 In this “joint venture” scenario the partner would be able to:

- Develop out all or parts of the site on a “Design, Build, Operate, Manage” form of contract.

- Funding would be provided by the Councils who would then approve all expenditure based on detailed business cases.
- The partner would manage the whole site and take a management fee on lettings. This approach would ensure the partner is “invested” in the site in that “no tenant – no fee”.
- The partner would manage the site, looking for opportunities to fill vacant units and using detailed market knowledge, buildings would be refurbished/built based on market trends/pre-lets.

6.0 Financial Implications

6.1 At this point permission is only sought to prepare the procurement brief, there is an estimated cost of £50,000 to undertake these works. Norfolk County Council would have no further liability.

7.0 Issues, risks and innovation

7.1 A number of risks will exist around the key areas of procurement, planning, site conditions construction, costs, market conditions, estate management and legal. Mitigation of these risks through a robust and live Risk Register to include measures to engage stakeholders early, carry out adequate research of the market, planning policies and obtain cost assurance as well as factor in contingencies.

8.0 Background

8.1 There are several strands forming the strategic background to these proposals, namely:

- The overall Councils priorities of **Excellence in Education**, **Real Jobs**, **Good Infrastructure** and **Supporting Vulnerable People**.
- Norfolk County Council Asset Management Plan 2016-19.
- The adoption of an updated property savings plan, that calls for £4.2m of savings for the next three years.
- The Norfolk One Public Estate Programme that is supporting the joint strategic exploitation of the combined public sector property estate.
- The medium term financial strategy includes commercialisation of NCC property assets as a priority to help diversify the Council’s funding.

Officer Contact

If you have any questions about matters contained in this report please get in touch with:

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<u>**Appendix 1 - Plan**</u>