APPENDIX A

ST IVES STARTER UNITS – BUSINESS PLAN

1. Introduction

This report has been prepared by the Estates and Property Manager to support the proposed development of new industrial and commercial premises in St Ives. It includes contributions from the Planning Services Manager (Policy), Sustainable Economic Development Manager and Head of Financial Services. In addition it incorporates the outcome of discussions with several commercial agents who are active in the locality.

2. Background

2.1. The Council has for many years provided start up units for new and small businesses as part of its policy for a strong and diverse economy (Growing Success Corporate Plan 2007/08 and Growing our Communities- Sustainable Community Strategy 2008-2028). From the 1970s these have been located in the market towns of Huntingdon and St Neots as part of the provision of serviced land and buildings for employment purposes. In the mid 1980s industrial premises were also provided in Ramsey under a partnership arrangement with a local developer in order to promote economic activity in that area.

2.2 At present there are 61 industrial units under 1700 sq ft managed by the Council in the following towns:

Huntingdon	24
Ramsey	14
St Neots	23

In addition the Creative Exchange in St Neots opened last year providing ‘office’ type accommodation for 14 small creative enterprises.

2.3. There is an approved allocation of MTP funding for the provision of starter units in St Ives, which is the only market town where the Council does not have any units at present. There has been a problem in finding a development site until the Caxton Road depot became vacant in 2007. This site of 0.45 acre is ideal for a scheme of small starter premises.

2.4. As well as providing some industrial units, the proposals include a range of individual offices in a block at the front of the site. The completed development would be managed by the Estates team within the Law Property and Governance division along with the existing industrial, commercial and property portfolio.

3. Planning framework

3.1. Policy CS7 of the adopted Core Strategy (2009) seeks to provide 85ha of land for employment to assist the diversification of local job opportunities and reduce the significant level of out- commuting in Huntingdonshire. The reuse of previously developed land will be promoted especially in the market towns and other sustainable locations. St Ives is a town where out commuting for jobs is higher in percentage terms than in Huntingdon or St Neots (2001 Census) and where 17ha of the total requirement is being sought.

3.2. In addition encouragement will be given to the regeneration of existing industrial estates allowing higher employment activity in more modern premises suited to the current needs of business activity.

4. Local Economy Strategy

4.1 This strategy was published in 2008 and covers the period up to 2015. It identifies the need to maintain a strong and sustainable local economy and paragraph 1.2 of the introduction states:
" While the local economy has developed successfully, the number of new jobs has not matched population growth. To address past deficiencies as well as future growth it is predicted that between 10,000 and 20,000 new jobs will be needed in Huntingdonshire over the period of the current Regional Spatial Strategy to 2021." Furthermore "these jobs need to be created near to centres of growth throughout the district" such as St Ives.(para 2.3)

Paragraph 2.5 states " We strive for high rates of new business start ups, growth in productivity, innovations in products and services and export led growth, which are all indicators of the economy's health. Our economy needs coherent and tailored business support services, available space and premises, effective business networks and sub-regional cohesion and connectivity between businesses"

It is noted in paragraph 3.3 that "The local economy has developed successfully but the number of jobs has not matched housing or population growth. As a result there are a large number of people who commute out of the district for work"

4.2 In recognising Huntingdonshire's location within the Cambridge Growth area, the Local Economy Strategy acknowledges the need to accommodate future sustainable job creation. Start up space is fundamental and " research consistently identifies the need for basic start up space for businesses in Huntingdonshire.Start up space is important as it underpins new business growth in the high value sectors" (para 4.1.2 LES). This has resulted in the development of the Creative Exchange in St Neots and a current feasibility study for establishing a potential business centre in Ramsey. A range of units in St Ives would greatly support the strategy

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4.3 Information and anecdotal evidence from the local business support networks such as Business Link and NWES further support the need for flexible in / flexible out office and industrial space.

4.4 The strategy also identifies in 4.1.5 that "a focus on inward investment will help more businesses to the district" and this year there have been 16 enquiries through East of England International – the regional inward investment agency. Reflecting the current economic climate, an increasing proportion of these are requests for smaller flexible space for both light industrial and office accommodation within town centre locations. This is borne out by the recent inward investment decision of Enercon – one of the world's leading companies in the wind energy sector – who chose St Ives to site its UK HQ in a small industrial unit and who is now looking to build on its current success by relocating to larger premises within the town.

5. Proposed Development

5.1. The scheme comprises the following accommodation:

Industrial	-	2 units of 76 sq m (820 sq ft)
	-	6 units of 42 sq m (455 sq ft)
Offices	-	6 offices ranging from 19-33 sq m (200-380 sq ft)

The total lettable floor space is 567 sq m (6,110 sq ft).

5.2. The design incorporates a number of sustainable features such as a sedum roof, rain water recycling etc with the aim of achieving a very good BREEAM rating and also a 40% reduction in carbon emissions below the current building regulation standard.

5.3 Planning consent was granted in December 2008.

6. Market conditions

6.1. The last year or so has been a difficult time for the property market generally. Nevertheless enquiries for small industrial units have continued to be received and over the last few months the number of enquiries has increased. So far applicants have been accommodated at the existing locations where there has been a higher rate of turnover than before the downturn. The flexible nature of the lease terms has also assisted in continuing to attract small businesses.

6.2. Unlike the other market towns there are relatively few small industrial and office units available for rent in St Ives. There are a number of industrial premises of around 700-950 sq ft at Royce Close currently available at rents of £7.50 to £9 per square foot (psf). The Royce Close development is approximately 6 years old and includes some freehold units. At Stephenson Road, on the same industrial estate, there are some older industrial units, dating from the 1980s, which are slightly larger ranging from 1100 sq ft to about 1700 sq ft. These are available at lower rents reflecting the age and size and local agents report that void periods are usually short and that several have been relet recently. Industrial agents involved in St Ives report an increase in activity over and above the levels at Huntingdon and St Neots.

6.3. Over the last few months there have a number of lettings of Council premises at Phoenix Court, Huntingdon, Levellers Lane, Eynesbury, and Highlode Ramsey. Rents at St Neots and Huntingdon have been in the region of £7-£8 psf. Last year the leases on three small units at Phoenix Court, Huntingdon, were renewed at £9 psf.

6.4. There is a particular shortage of small office accommodation in St Ives apart from a few isolated ones near the town centre and the serviced offices at Silvaco House, Compass Point, where the rents are in the region of £45 per sq ft inclusive of rates, heating etc. There are a number of much larger modern offices available in St Ives with asking rents around £15.The second phase of the St Ives Business Park, providing high quality office space from 3,000 sq ft, is due to be completed shortly.

6.5. Having regard to the shortage of quality starter units in St Ives, the recent increase in the number of enquiries for small units and the views of commercial agents active in the area, it is considered that a scheme of small flexible units will prove popular. The proposed rents have been assessed at a realistic level based on current market conditions but these could well increase over and above initial projections if there is an upturn in the local economy.

7. Financial Information

7.1 The scheme has been analysed having regard to the following assumptions:

- Building cost of £1,108k based on recent re-tender which achieved a £70k reduction
- Land cost £120 (current figure in MTP for land is £195k)
- Fees and site costs of £150k
- Capital grant of £25k
- Starting rent of £70 k based on £8.00 psf for industrial and £15 psf for offices with increases at three year intervals at 10% then later at 12%
- Occupancy in year 1 60%
- Maximum occupancy rates of 95%
- Maintenance costs allowances from year 1 into a sinking fund
- Inflation figures of 3% per annum for land, residual building value and refurbishment costs

- Interest on NPV 4.3% (40 year PWLB rate September 2009)

7.2. The prime purpose of the scheme is to provide starter units in accordance with the Local Economy Strategy. The following table shows the capital and revenue implications on a 2010/11 price base for the first three years:

	Pre 2009	2009	2010	2011	2012	TOTAL
	2010	2010	2011	2012	2013	
CAPITAL	£000	£000	£000	£000	£000	£000
Approved						
Land transfer from Offices		195				195
Scheme costs	101	1,025				1,126
Contribution from sale of previous unit		-285				-285
Net	**101**	**935**				**1,036**
Proposed						
Land transfer from Offices		195				195
Construction		558	550			1,108
Fees and site works	99	26	25			150
Contribution from sale of previous unit		-285				-285
Grant income		-25				-25
Net	**99**	**469**	**575**			**1,143**
Additional Capital Cost	**-2**	**-466**	**575**	**0**	**0**	**107**
						Ongoing
REVENUE						
Approved						
Maintenance costs			10	10	10	10
Rent Income			-47	-75	-75	-75
Net surplus			**-37**	**-65**	**-65**	**-65**
Proposed						
Maintenance costs				10	10	10
Rent Income				-47	-75	-75
Net surplus				**-37**	**-65**	**-65**
Additional Revenue Cost			**37**	**28**	**0**	**0**
ADDITIONAL REVENUE IMPACT			**22**	**35**	**7**	**7**
TOTAL REVENUE IMPACT		**7**	**25**	**45**	**18**	**18**

The above table shows there is a net cost which reduces after the initial years while construction takes place and the premises are let. The table does not include the contribution from the County Council which has a neutral impact in financial terms.

7.3. The whole life costs of the scheme over a 25 year period have been assessed and the net present value (NPV) of assessed at £230k This assumes that the units are build, leased out and then sold after 25 years.

7.4. If some refurbishment took place after 25 years extending the life to 40 years then the NPV would be £450k.

7.5. The above financial model has been adjusted to reflect additional build costs of £50k and also a possible delay in achieving 95% occupancy. These show that in the worst scenario the NPV would be reduced to £152K after 25 years and £356k after 40 years. Nevertheless both still show a positive financial return.

8. Options

There are basically three options for this site:

(i) Sell the land for £120k. Having spent £101k on the site so far this would result in a very small net sum and is not recommended.
(ii) Do nothing for the time being. There are unlikely to be any other development opportunities for the site and therefore this course of action is not recommended.
(iii) Proceed with the scheme.

9. Conclusion

The scheme offers a number of benefits:

(i) It will create over 6,000 square feet of new business space in 14 individual units employing up to 20 people.
(ii) It will be built to a high specification incorporating numerous sustainable features.
(iii) The development will also demonstrate a firm commitment to the regeneration of a disused site and contribute to measures tackling the economic downturn
(iv) The venture will generate a small but positive financial return for the Council.

9.10.09