



## **SCRUTINY COMMISSION – 15<sup>TH</sup> MARCH 2021**

### **AIRFIELD BUSINESS PARK DEVELOPMENT PROPOSAL**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **Purpose of the Report**

1. The purpose of this report is to advise the Commission of the development proposals for the next phase of Airfield Business Park in Market Harborough (Harborough District). Approval is to be sought from the Cabinet on 23 March for the allocation of resources necessary to support the proposals to submit a planning application for light industrial units covering a further 96,717 sq. ft. of the site, and to proceed to tender to construct part of the space (81,376 sq. ft.) as the next phase of development. The Scrutiny Commission is asked to comment on the proposals.

#### **Policy Framework and Previous Decisions**

2. The County Council's Medium Term Financial Strategy (MTFS) is the key financial plan for the Authority. The latest MTFS for the period 2021/22 to 2024/25 was agreed by full Council on 17 February 2021. This included provision for CAIF (Corporate Asset Investment Fund) capital expenditure of £11m in the year 2021/22 and £71m for the period 2021/22 to 2024/2025 bringing the overall CAIF programme to a total of £260m.
3. The County Council's Strategic Plan 2018-22, supported by the Enabling Growth Plan, sets out the Council's objectives for the rationalisation and utilisation of its assets, maximisation of capital receipts, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.
4. The Council's Corporate Asset Investment Fund Strategy (the latest iteration of which was agreed by the full Council as part of the MTFS in February 2021) requires this Fund to be used to add to the Council's portfolio of land assets to:
  - a. Ensure that there is more a diverse range of properties available to meet the aims of economic development;
  - b. Increase the size of the portfolio;
  - c. Improve the quality of land and property available;
  - d. Ensure the sustainability of the County Farms and industrial portfolio by replacing land sold to generate capital receipts and;

- e. Provide a revenue income stream to support ongoing service delivery;
- f. Fund will aim to ensure that its developments will be built in as sustainable a manner as possible with the aim of being net zero carbon in the construction phase and as energy efficient to occupy and operate as possible (including the use, where viable, of on-site renewable energy sources).

### **Background**

- 5. The County Council owns 15.5 acres of land at Airfield Business Park which it acquired in 2016. The site is located adjacent to the A508 Harborough Road north of Market Harborough and has been identified as a Key Employment Area and allocated for B1(a)/(b) (now class E under the new use class order - offices and research and development of products or processes), B2(c) (general industrial) and B8 (storage and distribution) in Harborough District Council's adopted Local Plan.
- 6. In July 2018, the County Council secured planning permission to build 80,000 sq. ft. (5.42 acres) of industrial space (12 units for B1/B2/B8 use) on part of the site.
- 7. Works on these units began in February 2019 and were completed in December 2019 at an overall cost of £6.85m. This development phase was valued in October 2020 as being £7.1m.
- 8. There has been strong market interest in the development, with 10 of the 12 new units now occupied and the rents achieved were in line with expectations. The scheme has continued to receive strong levels of interest during the recent Covid lockdowns and a number of lettings have been secured during this time, emphasising the scheme's attractiveness as a business location during what has proven to be a challenging economic period.
- 9. Five of the tenants who moved into Airfield Business Park took space to expand their existing Leicestershire-based operations. The Council has also been successful in attracting 5 new businesses from outside of the County. All of the Council's Airfield Business Park tenants have continued to trade successfully throughout recent Covid lockdowns.

### **Proposals for further development**

- 10. As a result of the success of the most recent phase of the development, consideration has been given to the potential to develop a further 96,717 sq. ft. (7.69 acres) of the site for E class (formerly known as B1, B2 & B8 uses prior to the implementation of the change to the Use Classes Order in September 2020) (light industrial) units. An indicative masterplan has been produced setting out the proposals which is appended to this report.
- 11. It is intended to develop the 1-acre parcel of land to the north east of the scheme once the remainder has been developed. This allows future flexibility

to either provide more business units or, subject to planning permission being granted, non-industrial uses - whichever has the highest demand/greatest viability. The site allocation within the Local Plan is for commercial uses and therefore any uses to be considered which deviate from the principles agreed will need to be justified through the planning application process.

12. Submitting a planning application at this stage (including an industrial use for the 1 acre parcel of land) will enable the Council to develop the site in accordance with the planning permission if non-industrial uses are not viable and thus will avoid the need for a new planning permission (with its associated costs).
13. The intention is to submit a planning application for 96,717 sq. ft. but only to proceed to tender to construct 81,376 sq. ft. of the space (see paragraphs 11 and 12 above). This tender will seek to obtain a price to build 27 individual units with sizes ranging from 1,539 sq. ft. up to 10,010 sq. ft. thus offering a broad range of grown-on space to complement what has already been developed on site.
14. The sizes of the proposed units have been developed having regard to the market demand experienced in the most recent phase of development, which highlighted a substantial demand for smaller units (up to 4,000 sq. ft.) which can offer existing tenants the opportunity to move into larger accommodation as their businesses expand in the future.
15. It is intended that the planning application will be submitted in April 2021. Pre-application advice has been sought from County Council planning officers on an informal basis; it should be noted that this should not be seen as indicative of the outcome of any eventual planning application process which will need to follow usual procedures taking into account all relevant and material planning considerations.
16. It is envisaged that the following indicative timescales will apply in terms of delivery and receipt of income for the Council should the proposal be approved by the Cabinet:

April 2021	Submission of a planning application to the County Council as the Planning Authority
September 2021	Planning permission secured
December 2021	Completion of procurement exercise
January 2022	Commence formal marketing
February 2022	Commence construction
November 2022	Practical completion of the scheme
December 2022	First occupation of units

### **Financial Estimates**

17. The cost estimate is currently £9.5m. This includes an allocation of contingency, construction costs, professional fees and letting costs.

18. The contingency against the construction cost element is considered appropriate given that significant due diligence has been completed with respect to ground conditions and therefore a lower contingency than that used for phase 1 is assumed.
19. A favourable net yield of 7.6% is expected to be achieved assuming a scheme cost (including land value costs) of £9.5m having regard to an assumed rental income of £787,000.
20. It is worthy of note that the Council acquired the land in 2016 at a cost per acre of £290,000. The land proposed to be developed is now considered to be worth in the region of £420,000 per acre.
21. The rent per sq. ft. compared to the most recent development phase has increased from £8 per sq. ft. to £10 per sq. ft. This should mean that the existing units are expected to achieve higher rents at rent review or at new letting/lease renewal.
22. The estimated construction costs against those achieved for the most recent phase have increased. These costs will therefore be tested by completing a competitive tender procurement exercise before it is determined whether this phase of the scheme should be progressed. This tender exercise will be based on a fixed cost to limit cost over runs. The details of in scope elements within the tender and construction contract will be carefully considered to also reduce the risk of cost over runs for the Council. If the tenders received are considered too expensive having regard to the returns required then the Council may consider alternative options.
23. Finance have completed various scenarios around the base case to highlight the sensitivity in net present value (NPV) and internal rate of return (IRR) over 20 and 25 years with a summary shown below. Under the base case assumptions, the NPV over 25 years is £1.8m and a breakeven point over 20 years. The competitive tender exercise to be undertaken will re-risk these returns estimates and only if these are shown to be at an acceptable level will this next phase of the development proceed.

	<b>20 yrs</b>	<b>25 yrs</b>
<b>IRR</b>	<b>6.0%</b>	<b>7.5%</b>
<b>NPV</b>	<b>(56,468)</b>	1,830,504

24. Finance have modelled 25 years' NPVs under the following scenarios: a reduction in gross rent from the base case and improvement in construction cost per square foot from the base case. Base case assumptions are shown in bold within the sensitivity tables below.
25. Construction costs are the highest individual cost line with the most uncertainty and as such are modelled alongside rent received. Construction costs are modelled at the base case assumption and also at incremental reductions of £5 per sq ft. Rent sensitivity is modelled given the Council's experience of phase 1 rents where some units are permanently vacant. The assumptions used for

this are the base case gross rent of £787,000, followed by reductions in 5% increments.

25-year NPV sensitivity table: Construction costs and gross rents

		Gross rent -5%, -10%, 15%			
		787,168	747,810	708,451	669,093
Construction cost (base and reduction of £5 / sq ft)	Base - £20 / sq ft	£3151 k	£2624 k	£2097 k	£1570 k
	Base - £15 / sq ft	£2809 k	£2282 k	£1755 k	£1228 k
	Base - £10 / sq ft	£2466 k	£1939 k	£1412 k	£885 k
	Base - £5 / sq ft	£2124 k	£1597 k	£1070 k	£543 k
	Base case	£1831 k	£1303 k	£776 k	£249 k

26. Under the 25-years scenarios, an improved NPV is achieved as construction costs decrease. A competitive tender process has been chosen to maximise the chance of reducing construction costs towards that the Council paid to construct phase 1 on cost per square foot basis.

**Equalities and Human Rights Implications**

27. There are no Equality and Human Rights Implications directly arising from this report. Implications associated with the future development of the site such as planning applications for planning permission, will be subject to Equality and Human Rights Impact Assessments, as appropriate, prior to decisions being made.

**Environmental Impact**

28. As this is a Council-led development, the scheme will ensure the Council's ambitions for a sustainable scheme are met where possible. This will involve ensuring the chosen construction strategy incorporates sustainable construction methods. This will involve the use of photovoltaic panels, electric car charging points, insulation and the use of best practice construction methods.

**Risk Assessment**

29. This is a medium-sized project that requires upfront investment in order to generate future financial returns. The risks relate to the size of the financial obligations which the Council could potentially commit to. These will include consultancy fees, infrastructure design costs, funding, timing commitments and construction costs. Inevitably all of these bring a degree of risk.
30. So that financial risk can be mitigated, and best value obtained, advice has been provided by external consultants. The scheme will be tendered and if the cost of tender returns is unacceptable, the proposed scheme may be redesigned to reduce cost.

**Background Papers**

Corporate Asset Investment Strategy 2021 – 2025

<http://politics.leics.gov.uk/documents/s159769/Appendix%20H%20-%20CAIF%20Strategic%20Report%202021-25.pdf>

**Circulation under the Local Issues Alert Procedure**

This report will be circulated to Mr P. Bremner CC (Market Harborough West and Foxton)

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**Appendix**

Indicative site masterplan for phase 2 of Airfield Business Park