CABINET – 1 SEPTEMBER 2021

PORTFOLIO: FINANCE, INVESTMENT & CORPORATE SERVICES

DEVELOPMENT OF EMPLOYMENT LAND AT CROW LANE RINGWOOD

1. RECOMMENDATION

1.1. It is proposed that the Cabinet, having considered the recommendations of the Commercial Property Investment Panel recommends to Council:

i. The allocation of **£8,445,000** in funding to complete the project, this figure being inclusive of construction costs, supervision and marketing of the development as well as contingency.

ii. To appoint the contractor identified in Confidential Appendix C as the preferred bidder to design and build the industrial and office units on land at Crow Lane, Ringwood.

iii. Commencement of marketing and letting of the units to potential tenants at the earliest opportunity.

2. INTRODUCTION

2.1. NFDC is seeking to develop the employment land at Crow Lane, Ringwood. The proposed scheme shall comprise of 5no. single-storey industrial units and 2no. two-storey office units, as well as associated external works and parking areas. This development shall be in accordance with the current planning permission and will have a total estimated floor area of approximately 4,558m^2 (49,458 sq. ft).

2.2. The proposed development is pursuant to implementation of the Council's Asset Investment Strategy in that it seeks to aid in the economic development of the district whilst also providing an income producing asset.

3. BACKGROUND

3.1. On 26 June 2019 the Commercial Property Investment Panel approved the purchase of the freehold interest in a development site off Crow Lane, Ringwood. The site extends to approximately 1.45 hectares (3.59 acres).

3.2. The site forms part of a larger mixed-use development: The residential part of the development to the east has been developed by Linden Homes, and the area immediately to the south of the site is designated for development of a care home by others.

3.3. Upon purchase the site was a greenfield and almost level site and as part of the sale agreement, Linden Homes has constructed the spine road and associated services.

3.4. Outline planning permission was granted in October 2014 (Planning Ref No:13/11450) for a mixed-use development of 175 dwellings together with the care home site and the employment land. Planning permission for reserved matters was granted in October 2017 under Planning Ref No: 17/11358. See appendix A for the master location plan that was approved as part of the reserved matters application.

3.5. The permitted light industrial units will have an estimated net internal floor area of 3401m^2 (36606 sq. ft) and offices will have an estimated net internal floor area of 1157m^2 (12852 sq. ft). Appendix B shows the proposed layout of the employment land.

3.6. Since purchasing the site, and following consultation with a commercial letting agent, the project team has submitted a non-material amendment to the planning application proposing minor changes to the office buildings to make them more suitable for letting, rather than purchase by an owner-occupier. This amendment was approved by NFDC Planning under delegated powers on 6 May 2021.

3.7. Due to current demand for small local distribution centres, the project team has also submitted a change of use application for buildings B, C, D and E to extend their use classes to include Class B8 (storage and distribution) and Class E (Commercial, Business and Service). The change of use application will improve the letting potential of the units, but ultimately does not affect the design and build timetable.

4. PROCUREMENT PROCESS

4.1. On 4 May 2021 an open tender was advertised on the South East Business Portal in line with NFDC standing orders and in accordance with public sector procurement rules. Four contractors returned bids which were then evaluated and scored on a 60/40 (quality/cost) basis.

4.2. Evaluation was supported by a team of design discipline experts who reviewed technical proposals and quantity surveyors who provided detailed analysis of the cost response. This team was responsible for reviewing the submissions to provide technical feedback and points of clarification to the evaluation team.

4.3. Following tender evaluation, which also included interviews, a contractor has been identified as the preferred bidder as specified in confidential appendix C. Confidential appendix C also contains a summary of the tender evaluation scoring.

5. AIMS, OBJECTIVES AND ACTIONS

5.1. The development looks to contribute to the Council's vision as stated in its adopted 2020 Corporate Plan *"to secure a vibrant and prosperous New Forest"* by seeking to *"maintain a vibrant local economy that brings opportunities to the area"*.

5.2. The Council's adopted Corporate Plan includes the key provision of helping local business grow. This is underpinned by the Council values to be: Ambitious in our desire to work for and with our local communities; Financially responsible for public funds; and Innovative and open in our approach. This project clearly targets these objectives.

5.3. It is estimated that this development could sustain around 150-200 new jobs once fully let as well as supporting several more during the twelve-month construction period.

5.4. In addition to providing employment for local people, it is predicted that this development will achieve an investment yield over just over 5%. As noted in the Asset Investment Strategy, it is considered that a meaningful contribution towards ensuring continued delivery of the Council's key services can be achieved through investment in good quality income producing commercial property, such as this development.

6. NEXT STEPS & GOVERNANCE ARRANGEMENTS

6.1. Following Council approval to proceed, the construction contract will be entered into and the contractor will be notified that they may commence project mobilisation.

6.2. After a period of additional survey work and detailed design it is expected that the contractor shall mobilise to site by the end of November 2021.

6.3. Making an allowance for unforeseen delays, it anticipated that construction of the development shall be complete by the end of October 2022.

6.4. The Property Investment Panel will act as the Project Board for this scheme and regular progress reporting shall continue via the issuing of monthly reports and through Panel meetings, held at approximately six weekly intervals.

7. FINANCIAL IMPLICATIONS

7.1. <u>Project Cost</u>

7.1.1. Table 1 identifies previously approved and committed costs as well as costs required to complete the development of the site. As can be seen in row 3, a further £8.32M is being sought to complete the project. This value includes the construction, supervision and marketing of the development as well as contingency. As discussed at 8.5.2, it is also recommended that an additional budget of £125k is approved to support the installation of additional PV (photovoltaic) panels (row 4). The resultant total project value is shown in row

5 and is estimated to be £10,886,054.42. A further breakdown of project completion costs is provided in confidential Appendix C.

		Committed to Date	Cost to Complete	Total
1	Acquisition of Land (inc. fees and duty)	£ 2,169,009.58	-	£ 2,169,009.58
2	Consultant Fees	£ 272,044.84	Included in row 3	£ 272,044.84
3	Projection Completion Costs	-	£ 8,320,000	£ 8,320,000.00
4	PV Panel Enhancement	-	£ 125,000.00	£ 125,000.00
5	**TOTAL**	**£ 2,441,054.42**	**£ 8,445,000.00**	**£ 10,886,054.42**

Table 1: Project Cost Summary

7.2. Rental Income

7.2.1. The estimated annual rental income for a fully let development is calculated as £551,643 which equates to an investment yield of 5.07%.

7.2.2. Advice from the Commercial Letting Agent suggests that 25-50% of the scheme will be let within twelve months of completion and the remainder between 12-24 months.

7.3. Asset Value and Useful Life

7.3.1. Advice from the Commercial Letting Agent suggests that asset value should be based upon a yield range of 4.5% to 5.5% for industrial units and 6% for the office units (fully let). This equates to an estimated value of the completed asset between £9.8M and £11.3M. Being held as an investment Property, the asset will be revalued annually, with upward revaluations or downward impairments credited or debited through the Council's Income and Expenditure statement.

7.3.2. It is anticipated the units will have an economic useful life of 60 years.

7.4. Cashflow Forecast

7.4.1. Upper and lower bound net income estimates are provided at 7.4.2 and 7.4.3. In both cases it is expected that units shall be fully let and achieving the full potential income of £552k by the commencement of the 2026/27 financial year.

7.4.2. The figures presented in Table 2 outline the lower bound estimate of 25% of units being let after 12 months and the remaining 75% being let after a further 12 months.

	Item	Financial Year					
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
1	Cost to complete	£ 3,200,000	£ 4,995,000	£ 250,000	-	-	
2	Expenditure	-	-	-	£ 15,000	£ 60,000	£ 60,000
3	Rental income	-	-	-	(£ 69,000)	(£ 345,000)	(£ 552,000)
4	Estate service charge income	-	-	-	(£ 15,000)	(£ 60,000)	(£ 60,000)
5	**Annual net expenditure / (income)**	**£ 3,200,000**	**£ 4,995,000**	**£ 250,000**	**(£ 69,000)**	**(£ 345,000)**	**(£ 552,000)**
Notes: Based on 25% of Units let after 12 months and remaining 75% let after a further 12 months.							

Table 2: Annual net income - lower bound estimate.

7.4.3. The figures presented in Table 3 outline the upper bound estimate of 50% of units being let after 12 months and the remaining 50% being let after a further 12 months.

	Item	Financial Year					
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
1	Cost to complete	£ 3,200,000	£ 4,995,000	£ 250,000	-	-	
2	Expenditure	-	-	-	£ 30,000	£ 60,000	£ 60,000
3	Rental income	-	-	-	(£ 207,000)	(£ 483,000)	(£ 552,000)
4	Estate service charge income	-	-	-	(£ 30,000)	(£ 60,000)	(£ 60,000)
5	**Annual net expenditure / (income)**	**£ 3,200,000**	**£ 4,995,000**	**£ 250,000**	**(£ 207,000)**	**(£ 483,000)**	**(£ 552,000)**
Notes: Based on 50% of Units let after 12 months and remaining 50% let after a further 12 months.							

Table 3: Annual net income - upper bound estimate.

7.5. Financing

7.5.1. Costs incurred to 31/3/21 have been funded using cash balances, with fees written off through the income and expenditure statement and the value of the land being held on the

Council’s Balance Sheet as an Investment Property. Minimum Revenue Provision (MRP) is being applied through the General Fund in line with the Council’s adopted MRP policy.

7.5.2. The Council’s Capital Strategy, adopted by the Council in February 2021 outlined the Capital Financing Requirement to 2023/24, which includes an assumption of expenditure on the delivery of the Council’s Commercial Investment Strategy. In making assumptions of financing, the capital programme as a whole is taken into consideration, and potential for external borrowing is not directly attributed to an individual project or scheme.

7.5.3. Treasury Management balances totalled £49.9 million at the year-end 31/3/21, and so internally held cash will be used in the first instance to finance expenditure on this scheme and MRP applied in line with the Council’s adopted policy. As outlined in the Capital Strategy, external borrowing may be required during 2022/23 or 2023/24 if all capital programme aspirations are fulfilled.

8. RISKS & OPPORTUNITIES

8.1. Any construction project will be subject to the risk of unforeseen costs, time delays and reduction in the quality of delivery. From inception, the project team has taken a proactive approach to risk management and has taken the time to understand and mitigate key risks whilst seeking to maximise opportunity where possible.

8.2. Risks to the quality of delivery have been mitigated by the development of a detailed performance specification, selection of a contractor who adheres to quality management standards and through the appointment of a technical advisor who shall monitor quality during construction.

8.3. By taking a proactive approach, the project team has set realistic parameters in terms of potential changes to time and budget meaning that the costs and completion date presented within this report are risk adjusted. Key risks and opportunities are presented at 8.4 and 8.5.

8.4. <u>Key Risks</u>

8.4.1. Materials Cost Inflation (cost)

The construction industry is currently experiencing unprecedented inflation in the cost of materials. Prior to confirmation of the preferred bidder, shortlisted contractors were asked to confirm their fixed price bid and that it shall remain valid until the point of tender award. Although this risk has been transferred to the contractor, the project team will work collaboratively with them to explore alternative materials and methodologies to lessen the impact of any future inflation.

8.4.2. Standard of Existing Works (time/cost)

An element of highway and utilities works were constructed by the seller as part of the land purchase agreement. Any issues associated with incorrectly placed services or poor workmanship have potential to cause project delays and increased costs associated with remedial works. This was in part mitigated by independent supervision of the highway construction and will be further mitigated by additional surveys during the contractor design phase.

8.4.3. Rental Market (income)

The rate of financial recovery following the lifting of Covid-19 restrictions places a degree of uncertainty on the demand for rented units, particularly office space. The project team has regularly engaged with a commercial letting agent to verify income predictions and whilst they have stated that the outlook remains uncertain, they maintain the view that the regional market has proved resilient and there should be sufficient demand for these units. In an effort to secure tenants early, the letting agent shall commence marketing upon Council approval to proceed with the project

8.4.4. Contractor Insolvency (time/cost/quality)

This would cause a potentially significant impact to project delivery time and cost but is mitigated by undertaking financial checks during the tender phase and payments being made based on monthly valuations of work by the consultant Quantity Surveyor. It is noted that the risk of sub-contractor insolvency is held by the main contractor.

8.5. Key Opportunities

8.5.1. Phased/early handover (time)

Although the programmed delivery date is the end of October 2022, the site layout and form of construction lends itself to the potential for the early handover of some of the industrial units. The preferred bidder has indicated that early handover is achievable and upon appointment an agreed programme shall be produced which targets early completion of some industrial units.

8.5.2. Enhanced sustainability (quality)

To achieve a BREEAM Very Good rating for the development (see section 10), PV (photovoltaic) units will be installed to the roofs of Units A&G. To further improve the green credentials of the development it is proposed that further PV units are installed. As a further enhancement to BREEAM requirements, additional ducting for Electric Vehicle charging shall be provided (see 10.4).

9. CRIME AND DISORDER IMPLICATIONS

9.1. None anticipated.

10. ENVIRONMENTAL IMPLICATIONS

10.1. The project is seeking to provide a development which meets the requirements of BREEAM Very Good. BREEAM is an abbreviation of 'Building Research Establishment Environmental Assessment Method' and is a sustainability assessment method that is used to masterplan projects and buildings. A 'Very Good' rating represents a sustainability performance in the top 25% of UK new non-domestic buildings.

10.2. A BREEAM rating is achieved by gaining a target amount of mandatory and optional credits. Targets fall under a variety of categories such as management, transport, waste, energy and water efficiency, thermal performance and health and wellbeing. The following sections outline a small number of the targeted credits which relate specifically to the green credentials of this project.

10.3. The assessment has found that a minimum of $100m^2$ PV panels is required and these have been specified as being installed to the roof of units A&G. Design loadings have also made allowance for potential future provision of PV panelling to all roofs.

10.4. The BREEAM assessment states that EV (electric vehicle) charging stations shall be provided for at least 10% of the total car parking capacity of the development. In addition to this requirement, the project team has specified that ducting for all remaining office parking spaces and 20% of industrial unit parking spaces shall be installed to allow for ease of future provision.

10.5. The contractor shall ensure that at least 90% of all construction waste is diverted from landfill and recycled.

11. EQUALITY & DIVERSITY IMPLICATIONS

11.1. None anticipated.

12. COMMERCIAL INVESTMENT PANEL COMMENTS

12.1. This project represents the first commercial investment which the Council has developed from the ground up. Not only does it provide an opportunity to invest in an income producing asset but, critically, it brings good quality employment provision to the district in an area where there is a high level of demand.

12.2. The panel is excited at the prospect of providing an economically and environmentally sustainable development that truly brings value to the area and has the potential to sustain 150-200 jobs. The added green value of enhanced PV provision along with the commitment to meet BREEAM sustainability targets sets an example and demonstrates NFDC's commitment to tackling climate change.

12.3. Following a highly competitive tender period, we are delighted to have identified a preferred bidder that shares our values of collaboration, best value, and sustainability. The contractor identified in confidential appendix C as the preferred bidder has committed to utilise local supply chain partners wherever possible with an ambitious target to engage at least 85% of SMEs within 25 miles of the development. As a contractor with a strong local presence, they are also committed to social value and shall actively engage with the local community throughout the build.

12.4. Finally, it is noted that although there will be reduced balances earning less interest through Treasury Management activities, the direct return from this investment will be significantly greater than the average investment yield achieved over the past few years. Furthermore, the value of the development is expected to increase over time.

13. CONCLUSIONS

13.1. The development proposal is in line with the Council's asset investment strategy in that it enhances the potential for employment and economic growth within the district whilst also adding to NFDC's portfolio of good quality income producing property.

13.2. A forecast yield of just over 5% makes this project a viable long-term investment and it is recommended that the full development of the site is progressed.

13.3. The well-established Property Investment Panel will provide governance on the scheme and will receive regular updates from the Project Delivery Team.

14. PORTFOLIO HOLDER COMMENTS

14.1 I support the proposal to complete the development at Crow Lane and I endorse the comments made by the Commercial Investment Panel set out in section 12 above.

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Background Papers & Appendices:

1. Appendix A – Crow Lane Development Masterplan.
2. Appendix B – Employment Land Site Plan.
3. Appendix C – Summary table of tender scoring, the preferred bidder and breakdown of costs to complete [CONFIDENTIAL].

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