

Economy Committee

10:00 am, Tuesday, 28 April 2015

City Strategic Investment Fund – industrial units

Item number	7.4
Report number	
Executive/routine	
Wards	7 – Sighthill/Gorgie

Executive summary

There has been limited development of new industrial units in Edinburgh in recent years. This restricts job creation in the light manufacturing area. In response, it is proposed that the Council develops a business park comprising 16 light industrial units on Council-owned land at Cultins Road, Sighthill. The development is projected to directly support approximately 30 full-time equivalent jobs upon completion as well as generating a rental income for the Council in the region of £168,000 per annum. It is proposed that £2,000,000 be allocated from the City Strategic Investment Fund towards the development, with repayment back into the fund from the rental income generated.

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City Strategic Investment Fund – industrial units

Recommendations

- 1.1 To approve in principle the allocation of £2,000,000 from the City Strategic Investment Fund for the development of a business park at Cultins Road, Sighthill, to be repaid from the rental incomes generated from the park.
- 1.2 To refer this report to the City of Edinburgh Council for final approval of the release of funds for the proposed development.

Background

City Strategic Investment Fund

- 2.1 On 7 February 2013, the Council approved the creation of a City Strategic Investment Fund (CSIF) to “help create new development opportunities, support business innovation, deliver jobs and promote economic growth in Edinburgh”.
- 2.2 The CSIF is an evergreen fund that will provide debt and equity finance for projects delivering a return on investment.
- 2.3 The CSIF is currently capitalised with £3,000,000 raised from the sale of surplus capital assets. The Council has agreed to raise this to £7,500,000.
- 2.4 On 29 April 2014, the Economy Committee approved an investment strategy for the CSIF.

Corporate Asset Strategy

- 2.5 The Council’s Corporate Asset Strategy for 2015–2019 sets out proposals for the future of the Council’s estate. One of the key objectives set out by the Strategy is the development of a “smaller and better quality estate”.

Industrial space

- 2.6 While Edinburgh's economy is heavily weighted towards the service sector, there is evidence of a growing lack of industrial space in Edinburgh. The October 2014 *Scottish Property Review* published by Ryden identifies a "clear shortage of available industrial space across the region" and notes "strong transaction levels across the small to medium sized unit market". In partnership with the private sector, the Council's Economic Development service is preparing an evidence paper on supply and demand in the city's industrial property market.
- 2.7 There has been limited development of new industrial units in Edinburgh in recent years. The West Edinburgh Business Park, which opened in 2014, was the first speculative industrial development in Edinburgh since 2008. 53,000 sqm of additional industrial space in Edinburgh had been consented as of 31 December 2013, but many of these consents are considered unlikely to ever be executed. 9,000 sqm of industrial space was lost to demolition or conversion in 2013, with a further 16,000 sqm consented to be demolished or converted.
- 2.8 Many of the city's existing small industrial units are located in areas which are less attractive to occupiers who favour proximity to trunk roads and transport hubs. Much of the existing stock is also ageing and may fail to meet the standards sought by occupiers in terms of energy efficiency, etc.
- 2.9 It is unlikely that the private sector will address the current shortage. The greater construction cost and risk of short-term lets to weak covenants associated with developing small units and the higher land values achievable for alternative uses, means developers are unlikely to obtain a sufficient return on investment. There is therefore considered to be a role for the public sector in addressing the shortage. In light of the identified shortage of industrial space in Edinburgh and the limited private sector interest in meeting this surplus demand, it is considered that new development by the public sector will not "crowd out" development by the private sector.
- 2.10 The last small industrial development in Edinburgh was a 13 unit scheme by PARC Craigmillar in 2008. Five of the units were pre-let during construction and the estate is currently fully let.
- 2.11 The Council is one of the main providers of industrial property within the city, with in excess of 45,000 sqm of space in over 300 units. In March 2015, the Council had only 1,173 sqm of space available in six units. Only one of the units currently available was less than 100 sqm.

Main report

- 3.1 In light of the limited supply of small industrial units in Edinburgh and the weak development pipeline, it is proposed that the Council speculatively develop new units for letting.
- 3.2 A site in the Council's ownership (shown in appendix 1) has been identified as suitable. The site is located on the east side of Cultins Road, opposite and to the rear of the TK Maxx outlet at Hermiston Gait. It is currently leased on a year-to-year basis as a vehicle compound for a breakdown and recovery service.
- 3.3 The site has excellent transport connectivity, lying within 500m of the City Bypass and within 100m of Edinburgh Park railway station and tram stop.
- 3.4 The Council's Investment Estate Manager has commissioned a feasibility study. The study indicates that the site in question would be capable of supporting a business park comprising 16 light industrial units each of approximately 100 sqm (1,076 sq ft) gross, with an estimated development cost of approximately £1.97 million–£2.02 million including fees and contingency.
- 3.5 The Council's Planning service has indicated that a development of this nature would be compatible with policy.
- 3.6 Rents for good quality standard industrial units lie in the region of £75-£81 per sqm (£7.00-7.50/sq ft), however, small nest units command a premium over this level. The Council's estates at Sauchiebank, off Russell Road and West Gorgie Park, are currently achieving rents of between £97 and £102 per sqm (£9.00-£9.50/sq ft) for units around 100 sqm.
- 3.7 The proposed development has been appraised at a rent of £107 per sqm (£10.00/sq ft), giving a total potential income, once fully let, of £168,000 per annum.
- 3.8 In terms of capital value, there is currently strong investor demand for multi-let industrial investments, consequently yields are keen. The likely yield appropriate for the development however should be tempered by the fact that tenants within the development will tend to be smaller/start up companies with weaker financial strength.
- 3.9 Taking all factors into consideration, a yield of 7.25% has been used for the development appraisal, producing a gross development value of £2,300,000.

- 3.10 The current lease on the vehicle compound expires in January 2016. This allows sufficient time to complete design development and to obtain Planning Consent and Building Warrant prior to lease expiry. This would allow for development to take place with an indicative completion date in the latter half of 2016.
- 3.11 Based on average employment densities, a build of this scale could be expected to directly support approximately 30 full-time equivalent jobs if fully occupied. Small industrial units are often used by early-stage companies who occupy them for a time before expanding into larger premises as they grow.
- 3.12 The development would both benefit the economy of Edinburgh by providing 1,600 sqm (17,200 sq ft) of modern industrial space in the context of a tightening supply and benefit the City of Edinburgh Council by creating a new high-quality income-generating asset.
- 3.13 Estates Services and the Economic Development have identified the development as a candidate for funding from the CSIF. The two services will continue to look at opportunities for development in other parts of the city.

Measures of success

- 4.1 The project will aim to deliver a successful, sustainable business park that generates a profit for the Council.

Financial impact

- 5.1 The development of the business park is projected to cost approximately £2,000,000 (excluding the capital value of the existing site). This represents slightly over one-quarter of the total £7,500,000 allocated to the CSIF.
- 5.2 On the basis of a rental income of £168,000 per annum, this would represent a gross income return of 8.4% per annum.
- 5.3 The £2,000,000 would be repaid from the rental incomes generated from the park. The repayment time will therefore exceed the typical investment horizon of up to five years referred to in the report presented to the Economy Committee on 29 April 2014. This is considered appropriate as the investment will deliver an asset of lasting value to the Council.

Risk, policy, compliance and governance impact

- 6.1 There is a risk that the development will not receive planning consent. As the Council's Planning service has advised that the proposals are compatible with policy, this is considered to be a low risk.
- 6.2 There is a risk that the time and/or cost of the development will overrun. This risk can be mitigated through careful project management during the construction phase.
- 6.3 There is a risk that the development will be unable to secure tenants. This risk can be mitigated by designing the development to fit the needs of occupiers and via an active letting campaign.

Equalities impact

- 7.1 There are no identifiable equalities impacts associated with this project.

Sustainability impact

- 8.1 The business park would be designed to best practice standards in terms of sustainability. It is proposed that solar photovoltaic panels would be mounted on the units, generating renewable electricity.

Consultation and engagement

- 9.1 A feasibility study for the development has been prepared by the Council Architect. In the course of preparing the report, guidance was sought from both the Council's Planning service and a BREEAM assessor.

Background reading / external references

["City Strategic Investment Fund" \(report to the Economy Committee, 29 April 2014\)](#)

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Links

Coalition pledges	P17 – Continue efforts to develop the city's gap sites and encourage regeneration
Council outcomes	CO8 – Edinburgh's economy creates and sustains jobs opportunities
Single Outcome Agreement	SO1 – Edinburgh's economy delivers increased investment, jobs, and opportunities for all
Appendices	1 – Cultins Road Site

Appendix 1: Cultins Road Site

