

Economy Committee

10am, Tuesday, 23 June 2015

EDI Annual Report

Item number	7.3
Report number	
Executive/routine	
Wards	All

Executive summary

The EDI Business Plan 2015-2017 is presented to Economy Committee with this report and an accompanying presentation.

Links

Coalition pledges	
Council outcomes	CO7, CO8, CO9, CO26
Single Outcome Agreement	SO1

EDI Annual Report

Recommendations

- 1.1 To note the content of the EDI Business Plan and associated presentation.
- 1.2 To note that EDI will return to Economy Committee in 12 months with a progress update.

Background

- 2.1 EDI is property development and investment company based in Edinburgh. EDI was established in 1998 by the City of Edinburgh Council as an arms length organisation.
- 2.2 On 13 December 2012, the Council approved arrangements for the governance of the Council's arms length companies and the responsibility for the operation of the Council's property companies lies with the Director of Services for Communities and the Economy Committee.

Main report

- 3.1 The EDI business plan 2015-2017 was approved by the EDI Board in November 2014. An extract of the business plan is attached in appendix 1.
- 3.2 Eric Adair from EDI has been invited to present to the Economy Committee on the EDI annual performance review and business plan 2015-2017.
- 3.3 EDI will report back to Economy Committee in 12 months time.

Measures of success

- 4.1 EDI has summarised it's targets for 2015 into four overarching objectives:
 - Three sites for 600 homes in Craigmillar and Granton under contract.
 - Three Fountainbridge projects under contract.
 - Construction commenced in Craigmillar Town Centre and at Market Street.
 - Pipeline of strategic projects agreed with the Council.

Financial impact

5.1 There are no financial impacts to the Council's budget arising from this report.

Risk, policy, compliance and governance impact

- 6.1 This report and presentation fit within the Council's governance arrangements for arms length companies.
- 6.2 EDI submit an annual assurance questionnaire in line with the Council's requirements on assurance for arms length companies.

Equalities impact

7.1 There are no equalities impacts resulting from the EDI business plan 2015-2017.

Sustainability impact

8.1 There are no sustainability impacts arising from the EDI business plan 2015-2017.

Consultation and engagement

9.1 The EDI board have approved this business plan 2015-2017.

Background reading/external references

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Links

Coalition pledges

Council outcomes CO7 - Edinburgh draws new investment in development and regeneration
CO8 - Edinburgh's economy creates and sustains job

**Single Outcome
Agreement
Appendices**

opportunities

CO9 - Edinburgh residents are able to access job opportunities

CO26 - The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives

SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all

1 EDI Business Plan 2015-2017

BUSINESS PLAN

2015-2017



EDIGROUP
CREATING INSPIRING SPACES



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ABOUT EDI

THE EDI GROUP LTD:

EDI is a property development and investment business based in Edinburgh. Established in 1988 by the City of Edinburgh Council, EDI is a private company, owned by the Council and run as an arms-length operation.

OUR VISION IS:

To build Edinburgh's world status, as an aspirational place to live and breathe.

WE DO THIS THROUGH OUR MISSION:

To maximise the positive impact of land & buildings in Edinburgh by creating inspirational spaces for workers, residents and global visitors.

WHICH IS UNDERPINNED BY OUR CORE VALUES:

Caring	We care about Edinburgh and work closely with its communities to understand how our work can benefit them.
Sustainable	We consider the wider aspects of development taking into account infrastructure and amenities.
Prudent	We take care in providing for the future, we add value to areas and buildings.
Positive	We create improved environments for everyone who interacts with them.
Creative	We strive to provide creative and desirable buildings and spaces.



EXECUTIVE SUMMARY

Our shareholder, The City of Edinburgh Council, concluded that its property development activities should be channelled through EDI with a twin focus on enhancing the value of land and buildings no longer needed by the Council and leading the masterplanning and property development of regeneration areas identified in Council strategy.

In June 2014 Parc Craigmillar Ltd, Waterfront Edinburgh Ltd. and Shawfair Land Ltd became subsidiaries of The EDI Group Ltd although in practice these companies have been managed by EDI from the beginning of the year.

ACHIEVEMENTS IN 2014

- Craigmillar, retail – land sales for 56 houses and 4,200 m² of retail agreed.
- Granton, Madelvic – land sale for cultural and industrial use completed.
- Shawfair – land sale completed.
- Brunstane – sale of land for 200 houses completed.
- Market Street hotel – planning lodged and operator contract in progress.
- Craigmillar Town Centre – revised master plan approved – retail, housing, school.
- Fountainbridge – master plan approved.
- Governance – Board, Audit & Remuneration committees established.
- Financial results – profit of £2.5m after payment to CEC of £5.97m.

OBJECTIVES FOR 2015

- Three sites for 600 homes in Craigmillar and Granton under contract.
- Three Fountainbridge projects under contract.
- Construction commenced in Craigmillar Town Centre and at Market Street.
- Pipeline of strategic projects agreed with CEC Corporate Property.

OBJECTIVES FOR 2016 AND 2017

- Craigmillar retail units occupied and plaza complete.
- First homes occupied at three residential sites in Craigmillar and Granton.
- Construction commenced on Madelvic retail / leisure site.
- Construction commenced at Fountainbridge on PRS and hotel.
- Hotel on Market Street completed and handed over.
- Brunstane masterplan consented and first phase sale concluded.



STRATEGIC AND ECONOMIC CONTEXT

STRATEGIC CONTEXT

The City of Edinburgh Council's review of its property companies and of its development strategy concluded that its property development activities should now be channelled through The EDI Group Ltd. In June 2014 Parc Craigmillar Ltd, Waterfront Edinburgh Ltd. and Shawfair Land Ltd became subsidiaries of The EDI Group Ltd although in practice these companies have been managed by EDI from the beginning of the year.

EDI's role is to enhance the value of land and buildings no longer needed by the Council and to lead the regeneration, masterplanning and property development of areas identified in Council strategy.

We seek to capture a greater return than the basic land value of non-operational land and buildings by staying in the development chain.

The Council has previously identified Craigmillar and Granton as two areas where strategic regeneration would benefit the immediate area and the wider city both socially and economically. EDI has managed the work of Parc Craigmillar since 2002 and has been assisting in the management of Waterfront Edinburgh on an interim basis. The Council's decision on the role and focus of EDI has clarified our remit and objectives in these two areas and we will now focus on supporting the Council's work on social and economic regeneration by bringing forward financially viable property development.

EDI has also been tasked with developing CEC's non-operational land and buildings with the aim of increasing and realising their value. Two sites in this category which we are taking forward are Market Street and Fountainbridge.

The Board make-up was revised to increase the breadth of expertise at Board level and it now consists of one executive director and 6 non-executive directors; three local councillors and three members with property or commercial experience. An Audit Committee and a Remuneration Committee were also set up.

The realignment of operations saw the company move from its historic base in Hunter Square to temporary offices in North St David Street. The new focus in activities has changed the skill set required in the team and a number of posts have been replaced with new roles. Further strengthening of the team will be needed over the next three years.

ECONOMIC CONTEXT

The financial crisis of 2009 and the ensuing recession has left its mark in the property sector, but with some degree of economic recovery now evident, it is appropriate for EDI to develop a proactive business strategy.

The Scottish economy has been growing for almost 2 years, with output expanding a further 1.0% in Q1 2014. The average independent forecast for Scottish GDP growth in 2014 is 2.5% and The Scottish ITEM Club forecast for 2015 is 2% growth.



Trends in the UK housing market are significant for our residential land portfolio. UK house prices have risen in all areas of the UK during the year to 2014 Q1. The 4 national house builders are recapitalised, active and focusing on prime city centre and greenfield sites but with much less interest in regeneration and brownfield areas. In an Edinburgh context, Savills have predicted that house prices in 2015 will rise by 2%. This compares with a 6% increase in city centre house prices in the last year. Savills also predict growth of 18.1% in house prices in the city between 2014 and 2018. This is counter balanced by uncertainties in the wider economy and the Bank of England's aim of preventing a market boom.

The UK commercial property market has increased in activity over 2014 and the Edinburgh office market also appears to be moving. Some speculative development is underway, for example The Haymarket (90,000 sq ft) and 6 St Andrew Square (107,000 sq ft). DTZ have reported that prime headline rents increased to £29 per sq ft in Q2 2014 and they expect rents to increase to £32 per sq ft by 2017. Commercial property growth is by no means a certainty and it would be prudent to monitor the level of demand for these proposed speculative offices as well as for existing stock. A further impact may be the spate of lease expiries due between 2014-2016.

The availability of development finance is increasing but with significant differences from pre-crash supply. High Street banks are still nervous or restricted about lending for commercial property development and seek low LTVs. Conversely, institutional investors appear keen to lend on commercial property development and regeneration if the scale and business model fit with their investment criteria.

In summary, the economic outlook for the UK as a whole and Edinburgh in particular is positive, although there are still financial risks in the wider economy which may reverse the recent economic cheer.

RISK MANAGEMENT

We have identified the strategic risks facing the Group and have a process in place to control and monitor them. We also monitor risk at a project level.

We do not expect to eliminate all risks and will take a balanced approach, by setting appropriate tolerance levels. We identify actions to reduce negative risks to an agreed acceptable level and this is monitored via a risk register.

The critical business risks identified through this process are described below.

- Development pipeline – a long term risk that project workloads become imbalanced in terms of resource availability. This requires early identification of future projects.
- Working capital – our working capital reserves are self-generated and utilisation will be managed by matching commitments with generation.
- Project specific incidents – the potential exists for an individual project to experience an issue with a substantial impact on the overall business. This is assessed at individual project level with high impact risks being managed intensively.



PROJECT OBJECTIVES

CRAIGMILLAR

At £200m, the regeneration of Craigmillar has been EDI's largest programme. This commenced in 2002 and covers four separate areas; Wauchope Square, Town Centre, Greendykes, and South East Wedge Parkland. The vision, which remains relevant and unchanged, is to regenerate Craigmillar to create a welcoming, sustainable and balanced community where people want to live and work. The desired outcomes include;

- Provision of 2 new primary schools and a new community High School.
- Provision of 2,200 new homes.
- A new town centre with retail, leisure and commercial uses.
- Public realm improvements.
- New public parks across 61 hectares.

The improving market conditions mean that we are now able to bring forward further development to continue to deliver the desired outcomes. As Parc is no longer in receipt of Government Grants (other than on an occasional basis) all activities need to be funded through the recycling of proceeds of asset sales and from private funding.

DEVELOPMENT OBJECTIVES: 2015

- One residential land sale in Greendykes agreed.
- Town centre residential land sale agreed.
- Town Centre retail detailed planning consent approved.
- Town centre infrastructure works commenced.
- Niddrie Mains Road shop fronts renovated.

DEVELOPMENT OBJECTIVES: 2016 & 2017

- Greendykes land sale concluded.
- Greendykes residential occupation commenced.
- Greendykes second land sale agreed.
- Greendykes infrastructure completed.
- Town Centre retail centre and central plaza open.
- Town Centre restaurant land sale agreed.
- First residential units occupied in Town Centre residential.



GRANTON

A masterplan for the waterfront in Granton was approved by the Council in 2000 which set out an ambitious vision of regeneration involving housing, leisure and industrial uses. This was pursued until the recession in 2009 by which point WEL had supported the delivery of nearly 300 homes and carried out major investment in infrastructure which has changed the nature of the area. The desired outcomes for the area are:-

- Reunite the city with its waterfront.
- Encourage the widest possible mix of housing, employment and leisure.
- Create a high quality living and working environment.
- Facilitate the integration of neighbouring communities.

The plan now is to focus on providing housing and employment uses utilising previous infrastructure investment. We will also partner with a neighbouring land owner to create additional retail and leisure provision at the west end of Waterfront Avenue.

DEVELOPMENT OBJECTIVES: 2015

- One residential land sale agreed.
- Madelvic retail/leisure planning application submitted.
- Madelvic House development strategy defined.

DEVELOPMENT OBJECTIVES: 2016 & 2017

- Residential land sale first phase concluded.
- Madelvic retail/leisure anchor tenants identified.
- Madelvic retail/leisure sale agreed.
- Land acquired for shore greening works.
- Second residential land sale agreed.

FOUNTAINBRIDGE

The regeneration of Fountainbridge has brought about the rediscovery of the Union Canal with walkers and cyclists now passing through an area which was once a closed and impenetrable site of industry. Our proposals focus on placemaking and community-building as key drivers to create a city centre location to match the best in Europe.

The master plan contains 63,829 sqm of mixed use development comprising 340 mixed tenure housing units, office space, a hotel, retail space, restaurants/cafés and an arts venue all within a pedestrian priority public realm. In addition the historic listed Castle Mills building will be retained and developed by Edinburgh Printmakers into an artist studio, workshops and exhibition space. A district heating scheme will be pursued.

Large scale private rented housing (referred to as PRS or multi-family housing) is not common in the UK, however support is growing. Fountainbridge is ideal in terms of location and city facilities. Multi-family provision shortens development timescales, facilitates high quality area management and creates a positive long term income.



Consent for the master plan is expected by the end of 2014 which will allow us to proceed with establishing a joint venture with a funding partner as well as working towards attracting both a hotel and PRS operator.

DEVELOPMENT OBJECTIVES: 2015

- Development funding deal agreed.
- PRS funding and operator agreement in place.
- PRS planning application lodged.
- Hotel operator and funding deal agreed.
- Hotel planning application lodged.
- Agreement in place with cultural end user.
- Office pre-let agreed and design commenced.

DEVELOPMENT OBJECTIVES: 2016 & 2017

- Towpath edge improvements commenced.
- Infrastructure for Phase 1 contract awarded.
- PRS first phase construction commenced.
- District heating and substation construction commenced.
- Hotel construction commenced.
- Office block 1 construction commenced.
- Second office pre-let agreed and design commenced.

MARKET STREET

This prominent city centre site has been empty for around 50 years due to its technical difficulties and the need to complement the UNESCO world heritage status.

EDI has led the design for a 98 bed four star hotel and identified a hotel operator, new to Edinburgh, for whom the location and quality match their business model. The hotel operator will fund the construction costs. The proposal combines to enhance the Council's land value, supports the City's world heritage status and strengthens the City's tourist facilities. In 2015 construction will commence with completion and occupations scheduled for mid- 2017.

DEVELOPMENT OBJECTIVES: 2015

- Planning consent received.
- Construction contract tendered.
- Construction commences.

DEVELOPMENT OBJECTIVES: 2016 & 2017

- Building completed and handed over to hotel operator.



BRUNSTANE

The 49 hectare site presents an excellent opportunity for a housing-led development to create a new community within the City. With a potential capacity for 1200 homes and if accompanied by the provision of a local centre and new primary school, the site could contribute to the City in meeting its housing requirements.

The site has been allocated for residential development within the second draft Local Development Plan published for consultation in June 2014. The Plan is anticipated to be finally adopted by CEC in early 2016.

We will continue to support the inclusion of the site within the approved LDP and thereafter to obtain a masterplan consent. This will enable us to market a section of the site for sale in late 2016 / early 2017.

DEVELOPMENT OBJECTIVES: 2015

- Inclusion in LDP confirmed.
- Master plan application submitted.

DEVELOPMENT OBJECTIVES: 2015 & 2016

- Master plan consent received.
- Phase One site sale concluded.



FUTURE PROJECTS

The lifecycle of anything but the smallest development project is at least 4 years from feasibility to completion and as much as 10 years on larger projects such as Fountainbridge. To secure a pipeline of work and to plan resource needs (financial and skills), EDI and the Council's Corporate Property Team have identified a number of assets which merit assessment for development potential and resource requirement.

OBJECTIVES

- Identify three new projects for inclusion in the 2016-18 Business Plan.

MANAGEMENT OPERATIONS

The Council's commitment to the revised role for EDI has significantly increased the business activities with a matched increase in development expenditure. To ensure that this is managed efficiently, there needs to be ongoing investment in the company's operational processes and staff resources.

OBJECTIVES

- Review our project monitoring system and embed the revised process.
- Staff appraisal system embedded.
- Increase staff resources to match workload.
- Relocate to new long term office base.
- Improve market awareness of EDI through new website, branding and PR support.
- Develop our institutional knowledge of PRS and district heating.



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