Report to	Cabinet	**Item**
	11 October 2017	8
Report of	Director of regeneration and development	
Subject	Norwich Airport Industrial Estate	

KEY DECISION

Purpose

To consider the strategy for the future development of the airport industrial estate

Recommendation

Members are asked to:

1. Agree to commission Carter Jonas to procure a joint venture partner to regenerate and manage the airport industrial estate
2. Agree that the brief for this work be brought back to Cabinet for approval
3. Agree that the appointment of any joint venture partner is subject to a full business case
4. Agree to establish a subsidiary of Norwich Regeneration Ltd to develop land at Hurricane Way for housing.

Corporate and service priorities

The report helps to meet the corporate priority a prosperous and vibrant city.

Financial implications

At this point permission is only sought to prepare the procurement brief and to establish a subsidiary housing company. The costs of the work by Cater Jonas to pre[pare the procurement brief is already budgeted for in an existing contract with costs split 60/40 between county and city councils.

Ward/s: All wards

Cabinet member:

Councillor Stonard, sustainable and inclusive growth

Councillor Kendrick, resources

Contact officers

Gwyn Jones, city growth and development manager	01603 212364
Andy Watt, head of City development services	01603 212691

Background documents

None

Report

Background

1. The Norwich Airport Industrial Estate (NAIE) is a significant property asset that is strategically located with the potential to capitalise from local infrastructure improvements and commercial/residential developments such as the Northern Distributor Road (NDR) and the residential development to the East with a phased delivery of 3,500 homes

2. The NAIE is owned by Norwich City Council and held on express trust for Norfolk County Council, effectively giving joint ownership. Income derived from the estate is divided 60% Norfolk County Council and 40% Norwich City Council. The estate is managed on behalf of the partnership by NPS Norwich Limited and the councils currently receive gross income of over £1.05m p.a.

3. The council challenges the use of its property on an ongoing basis. To this end, external agents (Carter Jonas LLP) were procured to provide external independent property advice to review the investigations work carried out to date and provide an assessment about whether the options proposed are achievable and provide the optimum approach in the current and likely future market conditions.

4. The overall site covers 564,920m² (139.56 acres/56.49 hectares) with 120,000 m² of floor space. About 90% (108,00m²) of the floor space is used for light general industrial/warehousing and the remainder for office use. Appendix 1 provides a plan showing NAIE within its wider context.

Opportunities

5. Both Norwich City Council and Norfolk County Council recognise that substantial reinvestment in the site is required and there is a significant opportunity to deliver increased asset value, potential for growth in non-domestic rates, increased rental income and employment growth. Re-investment will also stimulate wider jobs and increase GVA (Gross Value Added) for the Greater Norwich area.

6. As a result of previous investigations two development zones have been identified and possible redevelopment options proposed. The development zones indicate potential uses and are subject to further market testing (to establish viability) and fit with planning policy. :

   (i) A Southern Development Zone included plans for 20,000m² (215,300ft².) of light industrial units split into 18 units equating to 1,111m² (11,961ft².) each and delivered to BREAAM Excellent Standard. The plans also indicated an area for 33 residential dwellings.

(ii) A Western Development Zone included development proposals for an International Aviation Academy (IAA), delivery of 100 student residential rooms linked to the IAA, an Advanced Manufacturing Innovation Centre (AMIC) consisting of 30 light industrial units extending to 70,000ft² in total with 10% office content to be delivered to BREAAM Excellent standards and 30 units around 2,300ft² each (2016 review), a budget hotel of approximately 100 rooms.

7. There is also the opportunity to look at whether parts of the remainder of the estate could be improved and units (when they become vacant) refurbished or regenerated.

8. Carter Jonas undertook a review of the local property market. The principal findings from this assessment are:

a) Industrial Market:

- The Norwich industrial market is currently performing well with the level of existing industrial availability consistently declining since 2011.
- Demand for stock has been generally on the rise since 2012.
- Industrial rents have been (on average) rising since the end of 2015 (although prime rents have been stable for a number of years).
- The majority of stock on the market at present is dated.
- Although there is a large amount of stock in the pipeline, little has been built over the last few years indicating that there is an opportunity in the market for new, good quality space, delivered to meet current market demand – in particular 'mid-sized' units of around 5,000 to 10,000ft².
- There are a number of competing schemes in the locality, but most are restricted by clauses linking them to the airport.

b) Office Market:

- Generally stable particularly in terms of levels of available space and rental levels.
- Demand for space (principally coming from incumbent occupiers within the business services of government/Non-Government Organisations sectors) has been more cyclical with a drop in take up seen in 2016

9. Following the analysis of the local market Carter Jonas outlined in their report several redevelopment options:

a) General:

- A rebranding exercise should be undertaken alongside general improvements to the public to improve the estate's image and attractiveness to the market

b) Industrial:

- Prepare the site for development by demolishing redundant units and clearing vegetation to improve its appearance.
- Detailed designs should be created (on appointment of a chosen developer) to explore the creation of flexible light industrial terrace(s).

- Market the site on a pre let basis with availability from around 11,961ft² plus (as proposed in the 2016 masterplan review) although retain flexibility to deliver smaller units of say 6,000ft².

c) Residential:
   - The development and disposal of residential development land remains appropriate subject to a revision of unit mix (as provided).

d) Branding:
   - In respect of estate rebranding, at present, the estate is almost invisible owing to no independent brand identity through media (i.e. website/marketing particulars/adverts etc.) coupled with poor quality estate signage. Therefore this is an opportune time to start anew to establish a brand identity and communication that will attract the desired occupiers.

.

Development Return and Cost Appraisal

10. The Carter Jonas report included a summary of anticipated gross rental returns pre and post redevelopment of the two development zones along with the wider estate as it stands

11. There is the potential to increase the gross rental income from the estate from around £1.05m pa to £4.1m pa on the basis that all of the proposed buildings are built and occupied at the anticipated rent. There is also the opportunity to look at the management and investment in the current estate, to help retain and develop our current tenants

12. The report outlines the cost for regeneration, however further work is required to understand the extent and the cost of any works to the estate.

13. At this point any figures should be heavily caveated. The nature of any development (for example the size of units) and therefore the capital cost and income will vary.

Delivery model

14. Carter Jonas considered a range of delivery options for the regeneration of NAIE ranging from direct delivery by the council, use of a council owned vehicle, various joint venture arrangements and disposal. Their report concluded that a “hybrid” approach should be adopted involving a joint venture arrangement for the industrial/ commercial elements and delivery via a council owned company for the residential part.

15. This approach would allow the councils to manage risk. It will:

   - Allow the councils to self-develop the simpler sites (i.e. the residential sites) and realising all the financial benefits while sharing risk on more complex developments in conjunction with a joint venture development partner (i.e. the industrial units / hotel / AMIC) where they will take a profit for constructing the commercial buildings

- Result in a higher return for the councils than the pure joint venture development partner route

- Introduce expert market intelligence and experience to advise on the scale/makeup of the new development rather than pursuing a speculative "build and they will come" approach.

- Provide for the joint venture partner to undertake ongoing management of the whole estate. There will be mechanisms to incentivise the partner to build units which are likely to be let quickly to good tenants and maintain a high occupancy rate

- Enable both councils to provide funding on a 60/40 basis from Public Works Loan Board borrowing loaned to the joint venture partner at commercial rates meaning that no funding is required from the partner and allowing councils to generate a return from interest on the loan as another income stream.

- Limit the risk and exposure for the councils at any given time by not committing to the whole development at once but rather carrying this out on a phased rolling programme.

The way forward- Options

16. A number of options have been identified:

a) Do Nothing:
Both councils continue to manage the estate as existing and make no significant investment. It is estimated that within 15 years, operational costs (including empty rates payments) are likely come close to rental income destroying any opportunity for surplus. The estate is ageing and a number of 'rival' products will be launched onto the market over the next five years and it will be become increasingly difficult to attract new tenants.

b) Minor Improvement Works:
For a sum of £3-5m some minor works could be undertaken to selected buildings and the estate. Whilst this appears to be a significant sum it will not provide any new space or industrial units/

c) Proceed with the development as recommended by Carter Jonas ie seek a partner to form a "joint venture" for the commercial elements and take forward the delivery of the residential element via a council owned company. This approach will provide expert private sector advice whilst allowing the Councils to have a high degree of control. Use of the city council's existing company, Norwich Regeneration Ltd would be a convenient vehicle for the residential development. This may require establishment of a subsidiary given the joint ownership of the NAIE.

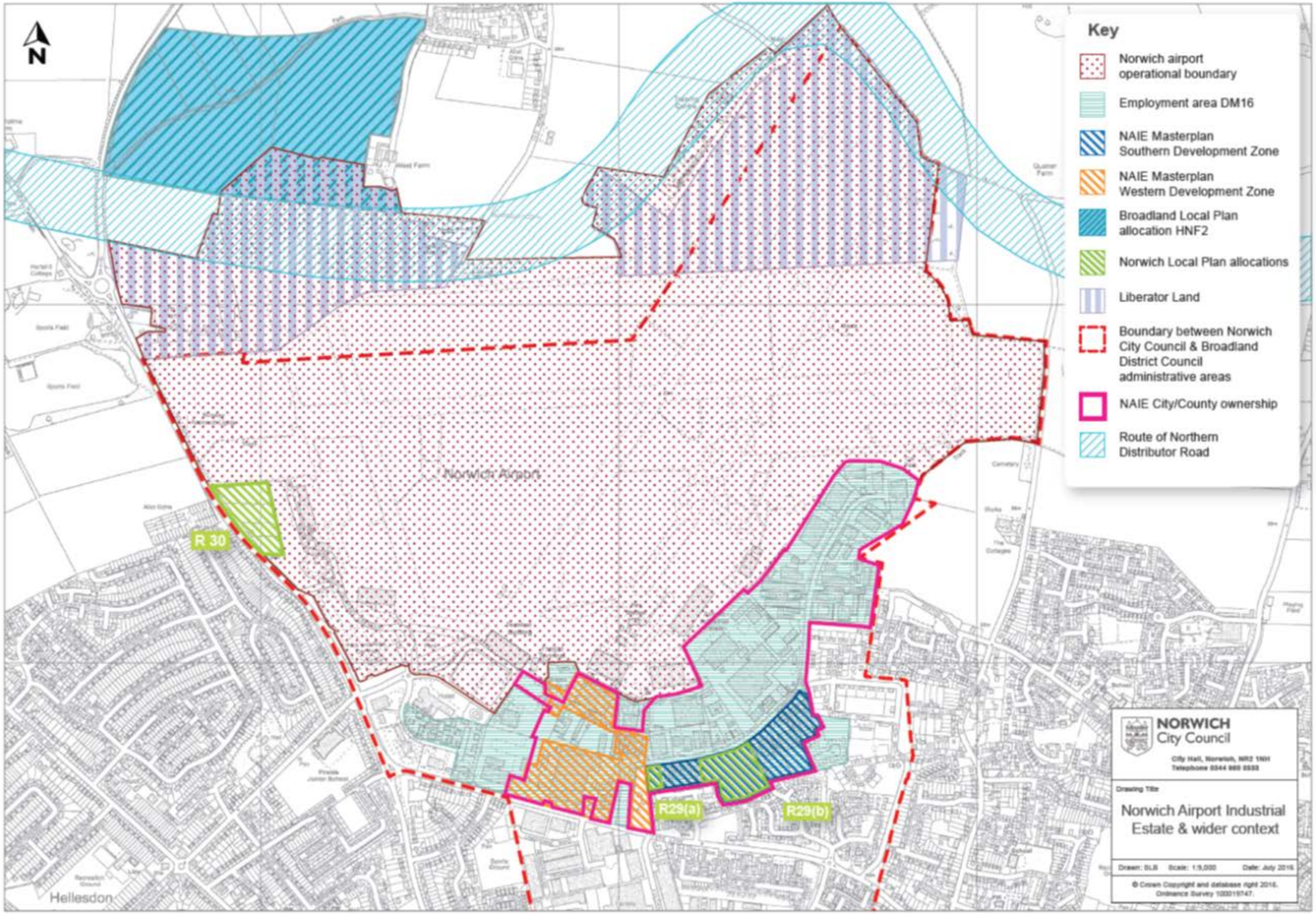
17. In this scenario the joint venture partner would be able to:

- Develop out the regeneration areas on a “Design, Build, Operate, Manage” form of contract. Additional areas could be included, when they became vacant.
- Funding would be provided by the Councils who would then approve all expenditure based on detailed business cases.
- The partner would manage the whole site and take a management fee on lettings. This approach would ensure the partner is “invested” in the site in that “no tenant – no fee”
- The partner would manage the site, looking for opportunities to fill vacant units and using detailed market knowledge, buildings would be refurbished/built based on market trends/pre-lets

Conclusions

18. Both Norfolk County Council and Norwich City Council recognise that the current situation of the Norwich Airport Industrial Estate cannot continue.

    To realise a significant opportunity to deliver increased asset value, potential for growth in non-domestic rates, rental income, employment growth and increase GVA (Gross Value Added) for the Greater Norwich area will require major reinvestment in the site. This can be undertaken through a hybrid approach involving direct delivery of residential elements via a council owned company and a joint venture arrangement for the commercial parts. The next steps is to prepare a brief to procure a joint venture partner and establish a suitable vehicle to take forward the residential element.


N
Key
Norwich airport operational boundary
Employment area DM16
NAIE Masterplan Southern Development Zone
NAIE Masterplan Western Development Zone
Broadland Local Plan allocation HNF2
Norwich Local Plan allocations
Liberator Land
Boundary between Norwich City Council & Broadland District Council administrative areas
NAIE City/County ownership
Route of Northern Distributor Road
R 30
R29(a)
R29(b)
Hellesdon
NORWICH
City Council
Drawing Title
Norwich Airport Industrial Estate & wider context
Scale: 1:9,000

	NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with completing the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	11 October 2017
Director / Head of service	Andy Watt
Report subject:	Norwich Airport Industrial estate
Date assessed:	18 September 2017
Description:	To seek approval to procure a joint venture partner to manage, redevelop and regenerate norwich airport industrial estate. To seek approval to set up a sunsidiary of Norwich Regeneration Ltd to develop land for housing at Hurricane Way.

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☐	☒	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	X			
Eliminating discrimination & harassment	X			
Advancing equality of opportunity	X			
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	X			
Natural and built environment		X		
Waste minimisation & resource use	X			
Pollution	X			
Sustainable procurement	X			
Energy and climate change		X		
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	X			

Recommendations from impact assessment
Positive
Negative
Neutral
Issues