

## UPDATE INVESTMENT STRATEGY

### Derby Regeneration Fund

October 2013

#### 1. INTRODUCTION

The Derby Regeneration Fund was launched in November 2010 and has been considered as having a major impact in the ongoing renaissance of Derby City Centre as a major commercial Centre within the East Midlands through the support of a number of key projects for “new build office and refurbishment” schemes.

In June 2013, a formal review was undertaken of the performance and impact of the Derby Regeneration Fund by Derby City Council Cabinet and also to consider potential updates to the investment strategy and associated investment criteria in order to reflect changes within the property market, investment requirements as well as maximise leverage for any new investment within the City.

This document sets out the key issues in the preparation of an update Investment Strategy for the Derby Regeneration Fund and is set out as follows;

- To review the impact of the Derby Regeneration Fund to date.
- To assess the current state of the Derby property market.
- To consider the potential incorporation of additional Priority Investment Criteria.
- Review of approach to maximise the impact of the Derby Regeneration Fund.

It is commented as follows;

#### 2. PROGRESS OF THE DERBY REGENERATION FUND TO DATE

Over the past three years, the Derby Regeneration Fund has supported a wide range of projects which are considered to have a major impact on both the City centre and those areas which are dependent on the City centre.

Key investments undertaken by the Derby Regeneration Fund are highlighted as follows;

- **Friar Gate Square** – a speculative Grade A office development of 32,000 sq. ft. delivered by Lowbridge Developments support by a loan from the Regeneration Fund. The scheme has established new standards for offices in the City and also preparing proposals for Phase 2 of the scheme. The anticipated materials will provide levels which will support the delivery of new speculative development.
- **Former Derby Magistrates Court** – the Derby Regeneration Fund has contracted to deliver the refurbishment of a key City centre building which has been vacant for around 10 years to provide around 30,000 sq.ft. of managed office accommodation and to provide a new home for the Local Studies Library in this listed building. Works will commence in November 2013 and are due to be completed in September 2014. The scheme is part funded through the Growing Places Fund.
- **HEROts** – an inward investment success, supported in part by the Regeneration Fund taking a property interest in an existing property. The investment attracted 650 new jobs to the City in June 2012 – this has now increased to over a 1,000 jobs.

- **Cathedral Quarter Enterprise Centre** – the Derby Regeneration Fund funded the acquisition of a key site and has provided “match funding” for ERDF secured for the scheme which will deliver high quality new build managed workspace for creative and other start-up businesses. The scheme totals 19,600 sq.ft., commenced in June 2013 and is due to be completed in May 2014.
- **Balfour Beatty** – reinvestment and expansion of the 13 acre Balfour Beatty site on Raynesway through an acquisition and leaseback of the site protecting 300 existing engineering jobs which would otherwise have relocated from the City. The investment has secured the on-going refurbishment of the site to create a modern facility and secured the opportunity for expansion of the site and the creation of a new innovation centre to ensure that Derby remains a key location in the growth of the business.
- **Darley Abbey Mills & Studios** – Provision of funding to support the restoration of important listed buildings and bringing them back into economic re-use.
- **Other Projects** - there are many other schemes currently in a development which are utilising Regeneration Fund resources both to fund project development such as design and planning matters whilst key opportunities are assessed and before other funding sources have been secured and also to provide match funding necessary to secure European Funding for important projects within the City. Other projects which have benefitted include Kings Chambers, Shot Tower, Roman House as well as emerging proposals for Infinity Park Derby.

The Derby Regeneration Fund has achieved a wide range of outputs and is considered to have exceeded the original target outputs. Whilst it is difficult to fully assess the full extent of the impact of the Derby Regeneration Fund, key outputs secured to date are assessed as follows;

<i>Jobs Created/ Safeguarded -</i>	1,500
<i>Private Sector Investment Levered -</i>	£75 million
<i>New Office Floorspace -</i>	100,000 sq ft (including offices under construction)

As a result of the positive impact of the Derby Regeneration Fund upon the City, Derby City Council Cabinet agreed to increase the resources available to the Fund by a further £7.5 million.

### 3. CURRENT STATE OF THE DERBY PROPERTY MARKET

Over the past 3 years, there have been significant changes within the Cities property markets as a result of changes in the national economy but also as a result of local factors and would highlight key points as follows;

#### Office Market

- Pride Park has continued to perform well as an office location however there is growing evidence of increased demand from companies for offices within the City centre.
- The new build speculative Friar Gate Square scheme has demonstrated a new confidence in the City centre area with asking rentals of £18 per sq ft for Grade A offices proposing to set a new record rental for the City. The developers have

received considerable interest for the building which is being offered as a whole only. The developer's confidence is shown by the submission of a planning application for a second phase of approximately 40,000 sq ft.

- There are a number of other sites within the City centre available for early development to build upon the success of the Friar Gate Square Scheme including One Derby, Central Square, One Cathedral Green and City Gate House which are available on a design and build basis to meet occupier requirements but could potentially be brought forward as further speculative schemes in the future.
- Whilst there has historically been a surplus of outdated offices in the City centre, the refurbishment of buildings such as Cardinal Square by Nurton Developments has seen some improvement in supply as developer confidence has gradually increased within the City.
- Projects such as the refurbishment of the former Derby Magistrates Building on Full Street/ Derwent Street and the demolition of the former police headquarters for the development of a new hotel and apartments is further evidence of the changing face of the City centre area as a result of new investment.

#### Industrial Market

- Derby has continued to benefit from the strength of the engineering base of the City and in particular the growth of the largest employer, Rolls-Royce as a leading provider of aero-engines and associated engineering services. The company has major sites at Sin Fin and Raynesway which have both seen considerable growth in employment over recent years.
- Additionally, Toyota has continued to expand on the boundaries of the City at Burnaston and despite the recent threat of closure, Bombardier continues to be a major employer within the City within the rail engineering sector.
- Whilst each of the companies continue to retain a strong presence within the City – it is recognised that each are international companies with a wide variety of options for the undertaking of their businesses in the future and will be reliant upon a strong local supply chain and access to the necessary skills to support their businesses. The availability of an adequate supply of sites and premises to meet these requirements is a key element to ensuring the sustaining of the strong engineering base for the City.
- On this basis, it is important that projects such as Infinity Park Derby are brought forward to meet the future needs of businesses within the City with particular emphasis on the advanced engineering sector.
- It was recently announced that Kuehne & Nagel would be the first major occupier for the Derby Commercial Park taking a pre-let on a new warehouse of 580,000 sq ft. The letting is a significant step for developer, Goodman who have invested over £20 million in the site to date and have been awaiting a major occupier for a site which would accommodate a single building in excess of 1 million sq ft. It is likely that the first letting will encourage further interest in the site.

### Retail Market

- The Westfield Centre has continued to provide a major draw for Derby City centre and is understood to have traded successfully through the economic recession.
- However, the creation of over 1 million sq ft of prime retail accommodation has inevitably had an adverse impact on many retail pitches outside the Westfield Centre and this was recently demonstrated by the closure of the Co-Op Department store on Exchange Street/ East Street closed in April 2013.
- Whilst some areas such as Saddler Gate have seen properties re-occupied, the level of vacant units is a threat to the vitality of parts of the City centre as a retail location and accordingly it will be necessary to either secure new occupiers or potentially secure new uses for former retail premises outside the Westfield Centre as the existing retail core adjusts to the major new supply of retail floorspace delivered within the City centre area.

### Other Sectors

- There is evidence of improving residential markets within Derby and the delivery of key regeneration schemes such as the Castleward scheme (Compendium Group) and the Osmaston Regeneration Area (Keepmoat) shows that housebuilders are now tackling more complex schemes in order to secure new units in the face of increasing competition.
- As previously noted, the development of new apartments by David Wilson Homes within the One Cathedral Green scheme is evidence of increased confidence within the City centre area as a residential location and the impact of ongoing investment within the River Derwent corridor within the City centre.
- The recent announcement of the regeneration of Becketwell to create a new health centre is evidence that the on-going regeneration of Derby City centre is providing opportunities of attracting a wide range of investment.

## **4. REVIEW OF INVESTMENT CRITERIA FOR DERBY REGENERATION FUND**

The original investment criteria for the Derby Regeneration Fund was based upon the objective of enhancing the Derby City centre office market through supporting of the provision of new high quality office accommodation within the City centre area to re-establish the area as a key location for both occupiers and investors – enabling the City centre to compete with nearby areas such as Nottingham and Leicester.

Through the supporting of the delivery of the Friar Gate Square scheme through the provision of loan funding from the Derby Regeneration Fund, this aim has been partially achieved although ultimately it will be necessary for the scheme to attract new occupiers to the City centre as well as to provide the catalyst to the private sector delivering other schemes within the centre to create the critical mass of development which is required to create an established office market location. The delivery of schemes such as the Cathedral Quarter Enterprise Centre ensures that offices are available to occupiers across a range of sizes without competing for potential occupiers.

It would not however be considered appropriate to support other new speculative office schemes providing large Grade A offices until occupiers have been secured for Friar Gate

Square otherwise if too many similar projects are supported by the Fund then there is considered to be the potential to create competing space which may have an adverse impact on values as potentially flooding a newly established market for speculative Grade A offices within the City centre area.

Accordingly, it is considered that in addition to the existing criteria in relation to the City centre office market, then the investment criteria shall be increased to incorporate the following additional complementary areas of investment;

1. **Other City Centre Projects** – promotion of a quality city centre offices market and strategic initiatives designed to support the restructuring of the City centre. It is considered that in the near future there is scope for 1 or perhaps 2 more new quality office developments. In addition officers, projects may be considered for the Fund to support bringing vacant space in the City centre (both at ground floor level and above) back into use – whether for offices, housing or leisure use to support the vitality and attractiveness of the City centre.
2. **Strategic regeneration initiatives within the City centre.** – The proposals will seek to support proposed scheme of such a significant scale that impact on the economy of the City centre and may include a variety of uses including retail, leisure, residential as well as offices uses.
3. **Major inward investment and/or job retention initiatives.** - The Derby Regeneration Fund may consider investment in major projects which are considered to have a major impact on the economy of the City and accordingly have a significant impact on the City centre area.

DCC have been made aware of a number of key projects that might fall within the above areas and where support from the Derby Regeneration Fund has the potential to invest and give rise to significant benefits for the Cities economy.

All investments will be subject to rigorous scrutiny as has been undertaken for previous projects and result in the provision of a report to Cabinet for approval. Schemes will be considered for investment against the following criteria;

- i. Economic Impact – in particular; jobs, business growth and new housing.
- ii. City Centre Impact – in terms of vibrancy, footfall and heritage.
- iii. Financial Implications - value for money, affordability and return of investment.
- iv. Deliverability – the ability to deliver the proposals and the associated risks.

Successful applications will require to enter into appropriate legal agreements in accordance with recommendations to DCC Cabinet including the provision of appropriate security where required.

## **5. USE OF OTHER FUNDING SOURCES TO ASSIST THE DERBY REGENERATION FUND**

The Derby Regeneration Fund is finite resource and consideration should be used as to the potential for the Fund to work with other funding sources to maximise the impact on the Derby economy as well as the number of schemes which may be supported through the Fund. As noted above, many of the scheme supported to date benefit from funding from a variety of other public sector funding sources.

Other potential funding sources which may be considered include the following;

**Derby Enterprise Growth Fund** - comprising of a capital funding utilising Regional Growth Fund which is targeted at supporting the growth of small and medium enterprises through the provision of grant or loan funding for a range of activities from skills and training through to property investment and development projects. Further information is available at ; [www.degf.derby.gov.uk/degf](http://www.degf.derby.gov.uk/degf)

**Growing Places Funding** – the Local Enterprise Partnership, D2N2 is seeking property investment opportunities to secure economic growth within the Derbyshire and Nottinghamshire sub-region which is generally provided through the use of loan funding. For example, a loan funding was secured by DCC to support the delivery of the former Magistrates Court scheme in order that the balance of the Derby Regeneration Fund may be utilised to support additional investment opportunities within the City. D2N2 have undertaken a number of separate call for projects which meet investment criteria. Further information is available at ; [www.d2n2lep.org](http://www.d2n2lep.org)

**Regional Growth Fund** – Central government have undertaken a series of calls for projects within a competitive bidding process for funding on a loan or grant funding. Further rounds of bidding are anticipated to be undertaken. Whilst bidding is subject to minimum project size criteria and is generally targeted at job creating schemes – a number of area based bids have been co-ordinated by parties such as the Local Enterprise Partnerships such that smaller projects may be supported – with the appraisal of local schemes delegated to a local organisation.

Accordingly, any project which will be seeking support from the Derby Regeneration Fund will also require to consider other potential funding sources which may be available or work with DCC to look at the potential of utilising other funding sources to maximise the impact of the Derby Regeneration Fund.

## 6. OTHER MATTERS

Any investments for investment from the Derby Regeneration Fund based upon the wider investment criteria outlined above will be the subject of the same application and appraisal processes for the Fund as outlined within the original Investment Strategy and demonstrate that they are both deliverable and provide value for money.