Thomas Lister

Derby Office Market Assessment

Prepared On Behalf Of

Derby City Council
Council House
Corporation Street
Derby
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APPENDICES

EXECUTIVE SUMMARY

This market assessment is an update to the 2011 Assessment Report prepared for the Council; however has also been prepared to incorporate analysis of the office market within the entire administrative boundary of Derby City Council. The 2011 report primarily concentrated on the office market within the core central area along with Pride Park, being the principal location for activity for the office market.

Since 2011, market and economic conditions have remained extremely challenging in terms of performance due to the UK's reported commencement to recovery at a tentative pace from the recent global recession.

The effect of prevailing economic and market conditions on the office market means that tenants still command strong negotiating positions, given the abundance of available offices and that many landlords seek to offload vacant floorspace to mitigate overall liabilities, particularly in terms of empty rates.

Difficult and highly competitive trading conditions within many sectors mean that short term leases are still preferred by tenants, along with the ability to secure rent free periods and break clauses for any lease terms in excess of three years.

Landlords also offer other incentives to secure tenants to vacant space, including a contribution to fit-out costs in combination with rent free periods.

In parallel with this, tenants are generally extremely cost conscious and often now demand a much greater input into service charge liability, often seeking to offset service charge costs against reduced rentals of the building wherever possible.

In terms of the development market, this remains frustrated by lack of demand for institutional type new build schemes. In addition new development is also often stymied through lack of private funding and developers have further been deterred from undertaking speculative developments due to uncertainty in tenant demand and potential liabilities arising due to empty rates being payable in the event that buildings are not let.

Positively however; Derby has, despite challenging conditions, had many successful events to report during the last two and a half years, including the successful implementation of the Regeneration Fund, resulting in the completion and commencement of a number of key projects. There has also been renewed activity by a number of key players within the city, primarily dominated by Rolls-Royce, but also including other companies such as Interfleet Technology, Severn Trent and Balfour Beatty.

Derby has also been in a position to promote a number of new initiatives coming forward, offering funding to support companies within Derby, including Unlocking Investment for Growth and Derby Enterprise Growth Fund which have already seen successful take-up of some of the spending.

In terms of demand and supply conditions this is summarised as follows;

<u>Supply</u>

- Development land allocated for office use in the city centre extends to 1.61 hectares with the ability to accommodate around 6,038 sq.m. of new office space.

- Schemes with planning consent in the city centre equate to floorspace in the region of 61,931 sq.m..

- Available office buildings in the city at the time of preparing this report equate to 61 units providing 43,066 sq.m. of space. This has increased significantly since the 2011 report and is established to be due to the four buildings vacated by the Council at Heritage Gate.

- Much of the existing accommodation available within Derby is considered to be Grade II quality and potentially un-lettable. Total supply of space within Derby may therefore more realistically be in the region of 28,840 sq.m..

- No schemes with planning consent in place have been identified outside of the core central area.

- In terms of the wider area, there are 163 units which have been identified providing a floor area of 58,861 sq.m..

Demand

- Demand within the core central area is estimated to be in the region of 8,446 sq.m..

- Demand for space within the wider area is estimated to be circa. 7,000 sq.m..

Analysis of demand and supply conditions within the core central area identifies the supply of available buildings equates to around 3.4 years supply, increasing to 11.46 years supply when consented schemes are included within the analysis. When allocated land is added to total supply, the years supply increases to 12.2 years.

Notwithstanding the above, the years supply of 3.4 years is likely to be lower given that much of the existing stock within the city centre is Grade B and C and cannot always meet requirements of modern businesses.

Analysis of the wider area estimates around 8.4 years supply of buildings available. It is similarly noted that some of this available supply is unsuitable to meet the demands of modern businesses and therefore the overall level of supply may only be adequate for a much shorter period of time.

Combining the results for the core central and wider area, the overall years supply increases to around 5.7 years. This supply is considered to be critically low and could be further exacerbated by some of the second hand buildings being potentially un-lettable.

Overall therefore the market assessment indicates a continued lack of good quality and Grade A accommodation both within the city centre and to a lesser extent the wider area.

In terms of the managed workspace stock within the city, this has during the last couple of years seen proposals to increase both in terms of the nature of space available and overall quality.

It is currently estimated that there is around 2,378 sq.m. of floorspace available with take-up of around 1,942 sq.m. per annum. On this basis it is established there is around 1.2 years supply of available space.

Crucially however some of this floorspace is sector specific meaning that some element of demand could not be accommodated within existing available space.

The pipeline space proposed will increase supply by around 10,183 sq.m. equating to around 5.24 years of supply. It is noted however that this supply will not be available to all demands given that this is sector specific and within some sectors, particularly the creative industries, space remains at low levels.

The report has also considered future prospects for the office market. The key challenge identified is the delivery of new space being dependent not only on developers being able to secure necessary development finance but also being prepared to deliver schemes in the knowledge that potential tenants of these buildings are likely to demand short term leasehold arrangements as opposed to accepting institutional terms.

It is considered there are potentially measures which could be utilised to address such issues with the ability to, over time, enable mismatches between demand and supply to move to more of a position of equilibrium.

Recommendations made by this report include seeking to work with owners of the high volume of Grade B and C office accommodation available within Derby, which could in part be addressed by funding initiatives currently made available through the City Council and potentially D2N2 Local Enterprise Partnership.

Continuing to target opportunities to enable the delivery of Grade A space within Derby and particularly the City centre, utilising mechanisms such as the Regeneration Fund in seeking to unlock some of those schemes with planning consent in place is also recommended.

Derby also benefits from an extremely proactive Economic Development Team and Investment Agency (Marketing Derby), which could be used as a mechanism to engage with businesses and occupiers within the City to ascertain requirements for the acquisition of new or expansion space. There may also be a requirement to upgrade existing space which could result in more efficient operations and the ability to create an environment for future expansion. Where any such requirements are known, financial incentives could be offered through some of the available funding mechanisms which may help to facilitate further business investment.

In conjunction with the above, proposals to ascertain whether there is any opportunity for investment of public sector funding in refurbishing and fitting out buildings by occupiers in return for longer term leasehold arrangements being secured, which could in turn facilitate developer activity.

Recommendations are also made to continue with proposals for delivery of new workspace schemes, including the provision of business support services. Based upon performance of the managed workspace sector, this is likely to increase the overall survival rate of start-up businesses and potentially increase the number of SMEs in Derby. This in turn should ultimately assist with diversification of the employment base and help to mitigate against reliance on a few large companies within the City.

1.0 Instructions

1.1 Thomas Lister Limited have been instructed by Anne Bhatti at Derby City Council (DCC) on the 26th April 2013 to undertake an assessment of Demand and Supply conditions within the administrative boundaries of Derby City Council. DCC have issued instructions in accordance with a Fee Proposal submitted by Thomas Lister to DCC on 17th April 2013.

1.2 The Office Market Assessment will be undertaken by Rachel Lister, Director at Thomas Lister, based upon Rachel's knowledge and experience of Derby as a location. In addition, Rachel was responsible for preparation of the Office Market Assessment issued in July 2011, which concentrated on the office market within the core central area.

2.0 Purpose Of The Commission

2.1 DCC require an assessment of the market, demand and supply conditions in respect of the office sector within the administrative boundary of the City Council. It is understood that the report is required to assist DCC in considering a number of major projects currently at feasibility stage and how to take these forward for successful delivery, in context of the position of the market. The report will also be utilised to identify the need for new office development in specific locations.

2.2 The basis of the review of the market, research and analysis to be undertaken is on a similar basis to that previously undertaken by Thomas Lister Limited in preparing the Market Assessment Report referred to above for the core central area, which as noted was issued in July 2011. For reference, it is confirmed that the Office Market Assessment Report produced in 2011 identified demand and supply conditions over a three year period, to establish mis-matches between demand and supply and gaps in provision of offices within the core central location.

3.0 Economic And Market Overview

Brief Analysis

3.1 A summary relating to economic and market conditions within the administrative boundaries of Derby are briefly summarised below as follows;

Economic Context

3.2 The population of Derby has a population of circa 249,000 residents (in accordance with ONS data for mid 2011) and is the eighteenth largest urban area within the UK.

3.3 In economic terms, Derby is ranked 69th out of 354 local authorities (in the indices Depravation 2007) although it is noted that Nottingham is 13th, Leicester is 20th and Lincoln is 70th. The only other East Midlands authorities ranking lower than Derby are Mansfield at 34 and Bolsover at 55. It is also noted that Birmingham is ranked 11th and Sheffield 63rd and Derby, therefore, has lower levels of depravation than the other two East Midlands cities, Birmingham and Sheffield.

3.4 In terms of socio-economic characteristics of Derby we would note the following;

- Derby has an economically active population of around 65% in accordance with the East Midlands average and slightly than the English average (source ONS June 2011). Around 64% of Derby's workforce live in Derby with approximately 11% commuted from the surrounding areas of South Derbyshire and Amber Valley (source: ONS).

- Unemployment rates in Derby as at March 2012 was running at 4.8%, being significantly below the English average of 7.9%. (source; ONS). The classification of the Employment based in Derby as at March 2012 there are around 7,780 VAT/PAYE based businesses. The highest proportion of these are retail at around 13.8%. The sector with the smallest proportion of businesses is agriculture, forestry and fishing at 0.3%. The public administration, education and health employed the highest proportions of persons aged 16-64 quoting to 29.6% of the population.

- Construction is currently the 6th largest sector in Derby in terms of the number of persons aged 16-64 in employment. The proportion of people employed in this sector is 5.6%, which is noted to be less than the proportion of the East Midlands region at 7.3%.

- In 2008, in Derby, retail premises had the highest proportion of all commercial and industrial floorspace units at 40.6%. Offices equated to 26.4%, factories 17.2% and warehouses 12.4% of all commercial units.

- Around 9.5% of Derby's total workforce are employed in the advanced manufacturing sector. Around a further 9% of Derby's workforce are employed in the non-advanced manufacturing, particularly aerospace and rail sectors. It is noted that the GB average employment levels in this sector is around 1%.

- In terms of employment size band, the highest proportion of businesses in Derby was in the 0-4 employee band equating to 61.5% total employment. This is less than the East Midlands and English averages of 67% and 68.4% respectively.

- It is recorded that for 2011, there were 755 enterprise starts in Derby and 695 enterprise closures. For Derby, the proportion of business start-ups in 2011 was 11.2% of the total stock of enterprises. The proportion of closures during the same year in Derby at 10.3% was greater than the East Midlands region of 9.8% and also greater than England at 9.9%.

- Around 41% of Derby's employment is in large bands compared to a GB average of 32%. Primarily this is due to the presence of Rolls Royce and other companies such as Toyota. It is noted that Rolls Royce alone employ around 11,000 people.

- In January 2013, average earnings were assessed to be in the region of £480 per week, which is just above the UK average of £470 and below the East Midlands average of around £600.

3.5 In summary therefore, Derby continues to exhibit a relatively strong economy underpinned by performance in the advance manufacturing and non-advanced manufacturing sectors and associated performance in the last decade.

3.6 Key issues and challenges facing Derby in respect of economic performance are noted as follows;

- The economy continues to be underpinned by major employers such as Rolls Royce and Toyota for employment and supply chain activity, which makes Derby vulnerable to any change in circumstances negatively affecting major employers. This position was highlighted in June 2011 when Bombardier lost a £1.4 billion Thames Link contract and were forced to make around 1,400 redundancies to the Derby workforce.

- Reducing Government investment in the rail industry means that this sector (which has a strong presence in Derby) may also be subject to decline; however, the potential for HS2 and the currently lobbying for a station to be situated within Derby may in some way address this potential threat of ongoing investment and decline in the railways.

- The decline in public sector employment will result in increased levels of unemployment potentially affecting the economic wealth of the city. Redundancies have been implemented within the City Council along with a recent announcement that Derby College may also be making 30 jobs redundant due to funding cuts and a restructuring programme at the college. This reinforces the requirement for additional job creation within the private sector to readdress job losses made within the public sector.

3.7 It well documented that economic conditions within the UK, Europe and on a wider global scale including the United States, remain extremely challenging. Output and productivity remain at low levels and households are suffering with overall reduction in wages, benefits and real disposable income, thus resulting in lower levels of demand for goods and services. Basic commodity prices including food, fuel and heating costs have continued to rise, which adversely impacts consumer spending.

3.8 The UK economy has narrowly avoided a triple dip recession after the economy grew by 0.3% in first three months of 2013. Furthermore, the UK economy is recorded as being smaller than it was before the onset of the financial crisis five years ago with growth predictions for the economy remaining at very low levels for the short term.

3.9 In the context of challenging economic conditions, a number of initiatives have been identified and implemented by Government on both on a national and local basis in seeking to stimulate the economy, which are noted as follows;

- The government launched the Regional Growth Fund (RGF) in 2011, which is a national grant based fund available for businesses to apply for as capital and revenue funding to enable business expansion and growth. The minimum threshold for funding to be applied for is £1 million. There have been four bidding rounds of RGF thus far, with companies involved in the automotive and aerospace sectors featuring heavily in terms of successfully selected projects.

- It is also noted that Derby City Council secured £40 million of RGF to grow enterprise and jobs in Derby and the travel to work area. Of this £40 Million, around £20 Million is available to support business growth and job creation. Sectors being targeted are the aerospace, rail and automotive supply chain, and investment will be offered as a grant, potentially towards innovation, research and development of products, processes and systems.

- The introduction of the Local Enterprise Partnerships (LEPs), with funding allocated as Growing Places Funding (GPF) is available for investment in infrastructure and projects which will create housing and new jobs. Essentially the Growing Places Fund is to operate on a revolving basis and investment is therefore offered as loan or equity. The LEP covering the Derbyshire and Nottinghamshire area is D2N2 and we understand GPF has been applied for, for a number of projects within Derby at this time.

- The National Skills Academy for Rail Engineering (NSARE) is established in Derby with the remit to address the skills deficit in the rail transport, technologies and production processes, which comprises the second largest skills deficit at national level in the economy. NSARE are currently working with a number of employers in identifying opportunities and training in order to expand the skills base in this sector.

- In addition to GPF, D2N2 have set up a £5 million investment fund, from which Derby firms may seek investment to assist with expansion and job creation in the city. The programme, Unlocking Investment for Growth, is concentrating on key sectors such as transport, low carbon technology, food and drink, biosciences and the visitor economy. Grants may be provided of up to 25% of total costs to support capital investment in projects with a minimum overall project value of £200,000.

- DCC are continuing with the implementation of the Derby Regeneration Fund, which has been extremely successful in facilitating a number of high profile projects within the city centre including the recently completed Friar Gate Square Grade A office development. The original £10 Million fund is almost fully committed and been bolstered with an increased budget to enable investment to continue within key projects within the city centre and wider Derby area.

3.10 One of the key objectives of DCC, therefore, has been seen to encourage diversification and expansion of the business base into growth sectors such as some of those mentioned previously in this report and providing support to SMEs. The establishment of an office sector within the city centre along with a good supply of readily available high quality accommodation continues to be a primary objective in encouraging new businesses within this sector to relocate to Derby. There are also a number of market issues to be considered for the potential growth of the Derby and these issues are explored below.

Market Context

3.11 The office market within Derby has continued to rank behind the East Midlands cities of Nottingham and Leicester in terms of existing supply of Grade A accommodation and development activity.

3.12 Derby has been successful in providing good quality office space for the market outside of the city centre being the Pride Park development.

3.13 The impacts of Pride Park is that in providing superior quality office space than is available in the city centre has caused displacement of businesses from the city and catered for the majority of office demand in Derby. Pride Park is now almost at development capacity and it has quite recently been established that there are a growing number of enquiries from occupiers to acquire good quality space within the city centre. This scenario was reported following consultation in November 2012 with local agents during the preparation of the Employment Land Review Forecast Update 2013, produced by GL Hearne. This report also recorded a specific requirement for delivery of new offices within Derby including small suites of less than 500 sq.m. and some larger units of over 2,500 sq.m..

3.14 The consultation process undertaken in the preparation of the above report also recorded the consensus view that there is a need for office development, not only in the city centre but also to provide additional Business Park space, recognising that there is a need to satisfy differentials in demand. Not all occupiers do require a presence in the City centre; however the consensus from Agents consulted was the emphasis on the need for a strong City centre first policy, whilst ensuring that complimentary space outside of the city is also provided.

3.15 Other key barriers to new development are that funding is simply not available from the lending institutions, unless there are pre-let arrangements in place with strong covenants on institutional lease terms. Alternatively, the lending institutions may consider forward sale agreements, where repayment of loan finance is over a short period and repayment guaranteed upon completion of schemes.

3.16 Developers are also generally deterred from undertaking speculative development given a volatile market and uncertainty relating to demand. The risks of carrying void costs on completed schemes including empty rates liability are also a significant deterrent to developing al schemes speculatively. These factors contribute to making development, particularly speculative, non-viable.

3.17 The impact of the volatile economic environment is that since the financial crisis the majority of businesses have suffered significantly lower levels of turnover and have had to embark on cost cutting measures, including staff redundancies and downsizing and/or disposing of surplus assets wherever possible. Many businesses generally have fewer resources available to commit to expensive property transactions and, therefore, seek short term lease hold arrangements as the preferred mechanism for occupation. Many leases are now granted around three to five year terms. Commonly for leases of longer terms, tenant only break clauses are usually incorporated in order to reduce overall financial commitment and exposure.

3.18 The overall availability of office space, therefore, significantly increased during the period of recession and pressures on Landlords to let empty premises in order to avoid Business Rate liabilities resulted in occupiers being in a strong negotiating position in terms of lease terms and incentives in order to entice occupation. As the availability of floorspace continues to fall over time (assuming a gradual upturn of the economy) demand and supply should start to move towards equilibrium.

3.19 The overall ability to reduce the volume of vacant floorspace within Derby will, however, depend on the quality of floorspace available. For secondary accommodation, and particularly that classified as Grade C space, much of this is considered to be beyond its economic life and/or in need of refurbishment in order to accommodate occupation. A significant volume of Grade C office space is considered to be un-lettable. In such circumstances, occupiers and/or developers would require to invest considerable funds in upgrading existing buildings, which can often be more expensive and complex than embarking on a new build option. Additional costs and risks associated with major refurbishment projects often create issues of viability, which exacerbate delivery when considered along with other key constraints to development including lack of development finance and short term occupancy arrangements.

Occupier Requirements

3.20 The challenging economic and market conditions as detailed above have significant impacts on the office sector, including developers and occupiers alike.

3.21 In terms of tenants seeking new premises, the increase in vacant space and void rates liabilities for landlords has placed tenants in a negotiating position, where Landlords are anxious to offload empty properties and reduce liabilities.

3.22 The prolonged challenging economic conditions have resulted in a shift in the terms in which tenants seek when occupying property. Landlords have similarly adopted measures in seeking to incentivise occupation. These are briefly summarised below;

- As previously noted tenants continue to be in a strong negotiating position and commonly seek as standard the following terms:-

  - Short Lease Terms – Typically between one and five year periods;

  - Rent Free Periods - Sometimes extending over a considerable term. Typically a 12 month rent free period can usually be secured for each three to five year term;

- For lease terms of five years and above, commonly there are break clauses at years three and periodically on a three year basis throughout the duration of the lease;

- Contribution to fit out costs in combination with rent free periods - Tenants may be able to secure contributions to works required prior to occupying the building which may be instrumental in reducing the overall rent-free period agreed. This may be important for landlords/developers who will be keen for buildings to become income producing if any early investment sale is required.

- Stepped rents are also evidenced on transactions and (sometimes combined with rent free periods) are an initial low rental agreed during the first year of the term which then increases on subsequent years of occupation.

- Management Issues - The management of the building can incorporate a number of measures in seeking to entice and retain tenants with ongoing input required from Landlords throughout the duration of the lease. Measures that have been evident are as follows:-

    - Service Charge Costs – it was noted earlier that many companies are extremely cost conscious and the requirement to pay a service charge in addition to rent can be a deterrent to tenants taking occupation to a building. Buildings with high service charges inevitably have higher void rates than those with lower service charge costs unless the high service charge costs are reflected in a reduced rental of the building.

    - Tenants Forum/Management Company – Where buildings and schemes are in multiple occupation, it is commonplace for tenants to form an arrangement to have an input into the management of the building/site which can influence matters such as maintenance of the building and regulation of the service charge. The Tenants Forum can also act as a mechanism for tenants to liaise and potentially explore business opportunities on an inter-company basis, along with networking and the potential to share facilities or services where appropriate.

    - Signposting events/other services – Landlords and/or managing agents of multi-occupied buildings or sites have, in some instances, adopted a more proactive approach in terms of providing signposts or promotion material in common areas to signpost business support, funding opportunities and linkages to other supporting organisations. Key objectives are being seen to retain/attach tenants and indeed often promotion literature for schemes often contain such information.

3.23 It may be that tenants ability to influence negotiation and lease terms may reduce over time with an upturn in the market and reduction of available floorspace. However, in the event that market and economic conditions take some years to recover to a position similar to those prior to the financial crisis, tenants negotiating positions will ultimately remain strong.

4.0 Recent Events in Derby

4.1 Derby has featured in local, regional and national press frequently during the last two year period, with the announcement of a range of significant events, key initiatives and programmes, which ultimately affect the economic wellbeing of the City. There have been both positive and negative events affecting the City during this time which are briefly summarised below;

- **Rolls Royce Plc.** – A press release issued on the 2nd May 2013 reported that Rolls Royce maintains its strong financial and trading position, with good underlying revenue and good growth in underlying profit.

  Since the company's preliminary 2012 results produced in February, this year Rolls Royce has gone on to win a £1.6 billion order from International Airlines Group, multiple contracts to provide and service military transport engines for the US Air Force and US Marine Corps. The company has also started construction of the core manufacturing facility in Derby, which will produce reactor cores for the UK's current and future submarines programme.

  As the largest employer within Derby, Rolls Royce represents the life blood of the City both in terms of its 11,000 employees and also in terms of supply chain activity and associated economic spin-offs that this delivers.

  It is widely acknowledged that many companies co-locate within Derby to be closely located to Rolls Royce and this in turn impacts on the requirement for commercial space to accommodate the presence of these companies.

  In February 2013, there were however a turn of events when Rolls Royce announced that the company was planning to cut around 320 jobs, mainly at its Derby and Bristol sites affecting backroom staff. Rolls Royce stated the job losses were required in order to increase productivity and to stay competitive and therefore the profile of the workforce was required to change. A higher number of employees were required in frontline engineering and production jobs, with fewer staff associated with support functions. Rolls Royce stated within the press that wherever possible all those people at risk of redundancy would be redeployed within the company.

  It is understood that Rolls Royce are continuing to review this position and that ultimately any jobs lost will be replaced through the company's continuing success in securing new contracts on an international basis.

- **Bombardier** – Disaster struck Bombardier and the City of Derby on the 17th June 2011 when it was announced that the company had lost the £1.4 billion Thames Link contract to Siemens.

  The company almost immediately announced that 1,400 jobs would be made redundant and the continued presence of Bombardier in Derby was also threatened. This announcement also led to concerns that train manufacturing could be lost to the UK completely should Bombardier cease trading activities. A further concern was raised that in time, this could mean that the UK would have to rely solely on imports for replacement trains and carriages.

Bombardier have continued to fight back in order to secure new business lines and enable the sustainability of the business in the long term.

Positively it was reported in the press in April 2013 that good progress has been made in winning new work since losing the £1.4 billion Thames Link contract. New business secured includes the £106 million contract for Virgin to maintain its West Coast Mainline Super Fleet and multi-million pound contract to supply 40 trains to Southern Railways. More recently in May of this year Bombardier won an £88 million order to build 60 rail cars for the London over ground network as part of Transport for London's programme to increase passenger capacity on the network.

Bombardier is a major employer to Derby and similarly to Rolls Royce generates much supply chain activity and is an important part of the local economy. Clearly this directly and indirectly impacts upon the office sector through those suppliers which provide services to Bombardier and occupy office space within Derby.

- **Nationwide Building Society** – It was announced on the 7th May 2013 that around 500 jobs are expected to be lost as the Nationwide Building Society begins the process of fully integrating its Derbyshire, Cheshire and Dunfermline Building Society branches. Nationwide has confirmed that it will close around half of Derbyshire's 27 branches which employ around 200 staff and rebrand the remaining ones. It is estimated that this integration process will complete by mid 2015 and job losses can therefore be anticipated through the closure of branches up to this time.

  Although the full impact of all 200 job losses may not be within the administrative boundaries of Derby, there will still be some job losses within the City which will impact negatively upon the economy through declining income and potentially increasing overall levels of unemployment. Furthermore, where Nationwide closes any branches which are within retail areas, this will create additional pressures to the high street where many retailers continue to struggle and vacancy rates of retail properties continue to increase.

- **Derby College** – The College Chief Executive has announced that funding cuts and a restructuring programme at the College is anticipated to lead to the loss of up to 30 jobs. Consultation had therefore commenced with staff and unions at the College over the possible reduction in employee posts. Part of the restructuring was required in order that the College can begin to progress its new strategic direction to realign education and training offered by the College with new course delivery options appropriate for a modernised workforce. This comes at a time when the College has been identified to have a relatively weak underlying financial position, which is also to be targeted for improvement over the next two year period.

  Although the reported job losses will have some negative impacts upon the economy, the overall position of the College is reported to be positive, given that it is responding to Government priorities and the needs of local businesses in the community. Some of the measures implemented are already beginning to indicate success as applications received for 2013 were noted to be at 12% higher than last year's numbers. In addition the College continues to work with Rolls Royce, Toyota, The University of Derby and Derby City Council in terms of opening a University Technology College in September 2014.

- **Derby City Council Regeneration Fund** – DCC launched the Derby Regeneration Fund back in November 2010 and since its launch the initial sum of funding has been largely committed with a number of high profile key projects secured. Projects which have, or are in the process of being delivered by the Regeneration Fund include establishment of Webhelp TSC at Pride Park (formerly Hero TSC), completion of the construction of the Friar Gate Square offices by Lowbridge, working alongside Wilson Bowden for the refurbishment of the former Magistrates Court, investment in the Cathedral Quarter Enterprise Centre (CQEC) as match funding to ERDF already secured. The proposed refurbishment of Roman House and the former Darley Abbey Stables is also progressing to implementation stage.

The Regeneration Fund has been acknowledged to have exceeded many of the anticipated targets set at the initial launch of the Fund and has successfully secured new jobs to the City.

In short, the Fund has significantly raised the profile of Derby as a business and investment location and it is hoped that this will be catalytic in stimulating the office sector both in terms of developer and occupier activity within the core City centre and wider area.

- **New Council House Offices** – In February 2013, DCC consolidated all of the Council's various offices within the City into the newly refurbished Council House building, accommodating around 200 staff.

A highly positive project for the City, this will assist in re-establishing the Market Square area into a high profile quality location, building upon the momentum delivered by the recently completed Riverlights scheme and bolstering confidence within the location. The Council House considerably lifts the visual appearance of the area and may potentially assist in the delivery of the adjoining former Magistrates Court and wider Full Street scheme proposed by Wilson Bowden.

The negative impact of the Council's relocation into the Council House is that it will result in around 13,935 sq.m. (150,000 sq.ft.) of Grade B floorspace becoming available on the market, with around two thirds of this space accommodated within three buildings at Heritage Gate. Derby already suffers with a shortage of good quality office space within the City centre and significant additions to vacant floorspace are considered likely to flood the market with poor quality space.

To counteract this issue, DCC have taken a proactive approach through working up proposals for the refurbishment of Roman House, which forms part of the Heritage Building to provide good quality complementary office accommodation within the City centre and seeking to reduce the overall volume of Grade B stock.

DCC's relocation from Heritage Gate also resulted in significantly fewer people being situated within this part of the City which will undoubtedly impact upon demand for goods and services within the area, i.e. cafes and food outlets, etc..

- **Interfleet Technology** – In May 2013, Interfleet expanded its Derby base after acquiring the lease for an additional 6,000 sq.ft. office building at Pride Park. The new premises will complement the company's existing Interfleet House office, which accommodates almost 300 staff and was approaching full capacity.

  It is also understood that Interfleet are considering additional office acquisitions within Derby in order to continue with its current expansion programme. Interfleet's continued commitment is excellent news for Derby, as it helps to cement the City's reputation as an important hub for the rail industry.

- **Unlocking Investment for Growth Fund** – D2N2 the Local Enterprise Partnership (LEP) for Derby, Derbyshire, Nottingham and Nottinghamshire has secured £5 million from the Government's Regional Growth Fund, which can provide a grant of up to 25% in support of capital investment projects with a minimum overall project value of £200,000. Businesses are being encouraged to apply for funding which is designed to facilitate business growth with the overriding objectives of assisting to grow the region's economy and create new jobs.

- **Derby Enterprise Growth Fund** – The £20 million fund, which was secured by way of a bid for Regional Growth Fund has the key remit to grow enterprise and jobs in Derby. Announced on the 17th April 2013, the first round of awards has been agreed in principle for total investment at around £1.3 million. The Enterprise Growth Fund awards a mix of loans and grants from £10,000 to £200,000 and is able to be used for a variety of projects including construction of new buildings, enabling companies to extend, update or move to new premises and purchasing new equipment and machinery. The funding approved in principle to date will enable businesses to grow and impact positively upon the local economy through the creation of new jobs and stimulating economic activity. The Fund remains available for companies to bid and particularly from those companies associated within the aerospace, rail and automotive supply chains.

- **Infinity Park, Derby** – DCC working in partnership with Rolls Royce Plc. and other landowners formulated proposals for the redevelopment of Infinity Park and are committed to this scheme at Sinfin being a world class showcase for the UK in support of innovation practices, particularly within the automotive, rail, aerospace and energy sectors. The site at Sinfin is proposed to be assembled with DCC funding primary new infrastructure to initially open up the site and enable the first phase of development for a new Innovation Centre. The developer/landowners would be responsible for providing the balance of the infrastructure works and undertaking the redevelopment of the site. In order to facilitate delivery around £20 million of Regional Growth Fund has been secured and will be one of the most high profile projects to be undertaken within Derby and is seeking to obtain national and international significance and support the growth of Derby as the UK's leading high-tech City.

  As part of the overall Infinity Park proposals, a consortium comprising the University of Derby, Derby College, Rolls Royce, Toyota Manufacturing (UK) and DCC have received approval to develop engineering skills through the establishment of a University Technical College (UTC).

  The UTC will provide education and training for students aged 14 to 19 and will form part of the new Innovation Campus at the heart of Infinity Park. Classed as an important component in securing the City's future as a centre for advanced manufacturing, the UTC is proposed to be located alongside Derby College and is set to open in September 2014.

- **Derby Urban Village** – Derby Hospital NHS has agreed to sell 3.24 hectares (8 acres) of land at the former Derby Royal Infirmary Site (DRIS) to UK Regeneration for redevelopment of a 300 house urban village on the site. UK Regeneration is now seeking planning permission and are aiming to start on site in November 2013 for the completion of 300 high quality bespoke build for rental homes by October 2015.

- **Balfour Beatty** – Balfour Beatty is also a key employer to Derby with around 850 staff employed at various sites around the County. Balfour Beatty acquired 1,858 sq.m. (20,000 sq.ft.) of new offices adjacent to Pentagon House which was one of the largest office transactions in the City during 2012. In addition, in February 2013 the company has acquired a lease of two floors at the newly refurbished Quarnmill House in Sir Frank Whittle Road extending to around 743 sq.m. (8,000 sq.ft.). Balfour Beatty are also continuing to strengthen their base in Derby and are working with DCC in respect of reinvesting in their existing 4.9 hectare (12 acre) Raynesway site in order to retain the existing workforce of around 400 staff and enable removal of obsolete buildings from the site, improve highways infrastructure and enhancing commercial logistics activities at the base.

- **Residential Redevelopment at Sinfin** – F&C Greet were granted planning consent in February 2013 for the redevelopment of a 20.2 hectare (50 acre) disused site in Sinfin enabling redevelopment for in excess of 700 new dwellings within the area. Along with the provision of new quality housing providing greater mix of tenure type and mix, Sinfin would also benefit significantly from skills and training initiatives resulting from this development, designed to provide long term employment opportunities.

- **Severn Trent** – It was announced in February 2013 that Severn Trent is in the process of buying 11,148 sq.m. (120,000 sq.ft.) former Head Quarters in Derby's Pride Park. The utility company is intending to move its existing customer call centre, currently based at Raynesway, into the building. Severn Trent confirmed that the purchase of this building will enable it to make better use of the facilities at its current site and to retain call centre activities and all of their employees within the City.

- **Castleward Scheme** – Compendium announced on the 14th December 2012 that the first phase of construction work has commenced to deliver this major mixed use development to the City. The scheme will in its entirety deliver 800 new dwellings and 3,205 sq.m. (34,500 sq.ft.) of commercial floorspace along with an urban park and other community facilities.

  The first phase of development will comprise 163 new dwellings along with 1,533 sq.m. (16,500 sq.ft.) of commercial floorspace.

- **Old Manor and Kingsway Hospital Site** – Kier Partnership Homes were selected as the preferred developer in respect of delivery of 700 new homes and a business park and is anticipated to cost around £100 million to deliver. The scheme is anticipated to be spread over a number of phases in the next ten year period and Kier will work with Taylor Wimpey and Nottingham Community Housing Association on the scheme. The commercial element of the development is also anticipated to deliver around 450 new jobs to the area.

- **Derby Velodrome and Multi-Use Sport Arena** – Work commenced on the £22 million facility in November 2012 which is being funded by DCC and Sport England who are investing £3 million in the project through its iconic facilities Olympic and Paralympic Legacy Fund. The project will include a 5,000 seat concert facility with the Velodrome racetrack on the first floor in a building which is set to be a world class national venue.

- **£1 million Mortgage Scheme** – Derby City Council launched in October 2012 a £1 million mortgage scheme which will provide funding to enable a first step on to the property ladder as a key step to kick starting not only the housing market but also the wider economy.

- **Toyota** - The Japanese company invested significantly in its site at Burnaston back in November 2011 in the wake of what was a difficult year for Toyota following the earthquake and tsunami in Japan in 2011, which left Toyota dealers with fewer cars to sell.

  Toyota has recovered from these difficulties and has been confirmed as the world's top selling car maker in 2012, selling 9.7 million cars and trucks worldwide in comparison to General Motors 9.29 million. Toyota's overall sales rose by 22% in 2012 and the company is expected to maintain its lead over General Motors this year as it launches new vehicle ranges during 2013.

4.2 The above events in Derby demonstrate positive growth within a number of key employers within Derby. In addition a comprehensive range of measures are being promoted by DCC, key partners and companies in order to encourage further development, investment and occupation activity in the City along with supporting SME growth and kick starting the housing market.

4.3 Overall therefore, measures are being put in place to support skills development, training, provision of quality commercial land and premises in order to accommodate targeted employment growth in key sectors and cementing important relationships with those companies already in occupation in Derby. Ultimately a comprehensive approach across all sectors is key to deliver establishment and expansion of the office market and priority sectors within the City which clearly cannot be achieved without a sustainable workforce who require housing, leisure, education and other facilities in order to be encouraged to relocate and stay in the City.

5.0 Review and Update of Previous Market Assessment Report

5.1 The Market Assessment Report produced in 2011 undertook analysis of demand and supply conditions within the administrative boundaries of Derby City Council; however drilled down this analysis to focus on the office market within the core central area.

5.2 It is noted, that the 2011 report does include data and analysis relating to the office market outside of the core central area. For the purposes of preparing this report, evidence has been separated to establish office market activity within the core central area and the wider Derby area. The analysis of the wider area outside of the City centre is documented within Section 6.0 of this report.

5.3 The key elements which are subject to review within the assessment report produced in 2011 are the demand and supply data, which have been updated to include recent evidence and transactions up until the end of March 2013.

5.4 We would report as follows;

i. <u>Supply of Office Land and Buildings</u>

The assessment of supply has been undertaken through identifying sites allocated for office development and mixed use development, along with schemes with planning consent in place for the provision of new offices. An assessment has also been undertaken of existing buildings available on the market. We would report as follows;

a. *Land Allocated for Office Use* – Detailed discussions have been undertaken with the Local Planning Authority in respect of allocated sites within the core central area and to obtain an update on current status.

- *Becket Well*

Becket Well forms an area in the City around Green Lane and St. Peters Street and the policy identifies this as a major mixed use regeneration opportunity. Any future proposals coming forward for this area may include some element of office use; however there are no known proposals coming forward at this time.

- *Castleward*

On the fringe of the City centre, this 12 hectare (30 acre) site is proposed to accommodate around 800 new homes and a relatively small element of commercial use. The delivery of new offices within this scheme is anticipated to extend to around 6,039 sq.m. (65,000 sq.ft.).

A hybrid planning application was approved at committee in 2012 and Section 106 Agreement signed in 2013. The application includes provision of 1,742 sq.m. (18,750 sq.ft.) of A1, A3, B1, D1 and D2. Phase 1 of the development is now under construction.

- *Northern Quarter*

The Northern Quarter covers the area between Saddler Gate and Ford Street/St. Alkmunds Way. The area is mixed use in character including a number of significant development opportunities. The Northern Quarter policy area is seeking to promote reuse of existing buildings and as part of the general policy may include office provision. There are however; no known proposals coming forward for delivery of new offices in this area at this time.

In summary therefore, based upon the information above, it is estimated that there is in the region of 1.61 hectares (4 acres) of land allocated for office use which may be brought forward for future development within the core central area, which could accommodate around 6,038 sq.m. (65,000 sq.ft.) of new office development.

Other areas within the core central area for which office activity is to be focused primarily consist of existing buildings, with few plots of development land. Even where there are vacant sites, it is considered likely that these will come forward eventually for mixed use schemes with overall office elements comprising a more ancillary use to other uses such as leisure, retail and residential.

b. *Schemes With Planning Consent*

- *Central Square, Cathedral Road*

Proposals for the delivery of 4,645 sq.m. (50,000 sq.ft.) new offices over four storeys are being proposed by Bolsterstone Developers. The scheme is stalled pending securing an occupier to facilitate development.

It is understood from the Planning Officer that as the scheme was approved in 2007, theoretically the application has now lapsed. There is the possibility that the application was activated through the developer installing a piling net on site; however requires clarification from the developers. The site is currently being used for parking on a temporary basis.

- *City Gate House, Cathedral Road*

Cedar House Investments were initially promoting a building of 5,574 sq.m. (60,000 sq.ft.) of high quality office development over four storeys on land adjoining the Joseph Wright College. No current proposals are known for the delivery of this scheme; although it is understood that Cedar House have had discussions with the College in terms of selling the site as expansion land to the College. Potentially therefore this site may not come forward for office development.

The Planning Officer has also advised that as the scheme was approved in 2008, theoretically the application has now lapsed. Clarification on this issue is required from the developers.

- *Number One, Cathedral Green, Full Street*

Being promoted by Wilson Bowden this is a mixed use development including 7,432 sq.m. (80,000 sq.ft.) of offices. The majority of the office accommodation is anticipated to be brought forward at a later stage when other aspects of the scheme have been delivered such as the hotel.

The entire scheme also includes the former Magistrates Court, which is proposed to be acquired by DCC once Wilson Bowden completes the refurbishment of the building. The former courts are proposed for occupation in part by the Local Studies Library with the remaining space comprising managed workspace accommodation.

- *One Derby, Siddals Road*

Norseman Investments are proposing the phased delivery of offices extending to 37,160 sq.m. (400,000 sq.ft.) along with a hotel within six buildings on this site. The scheme is being marketed on a design and build basis, with lack of interest exacerbated by the design of the scheme offering large units in excess of 3,251 sq.m. (35,000 sq.ft.) up to 6,669 sq.m. (72,000 sq.ft.).

- *Riverlights*

Part of a mixed use development incorporating 4,645 sq.m. (50,000 sq.ft.) of offices.

The site is now the preferred location for the new swimming pool and so is unlikely to come forward for office development.

- *Saddler Square, Bold Lane*

Part of a wider mixed use scheme incorporating 4,180 sq.m. (45,000 sq.ft.) of office accommodation. First phase of delivery will be the Cathedral Quarter Enterprise Centre extending to circa. 1,800 sq.m. (19,376 sq.ft.).

It is understood that discussions are ongoing with a developer for the delivery of the wider site and may include some student housing in the first instance.

- *Friar Gate Square*

A two phase development comprising 7,015 sq.m. (75,500 sq.ft.) of high quality offices to be delivered by Lowbridge (Derby) Limited within the Friar Gate Conservation Area. Phase I extending to 3,599 sq.m. (38,745 sq.ft.) has now been constructed and is currently available.

- *Cathedral Road*

Clowes Developments have secured consent for new offices extending to 900 sq.m. (9,688 sq.ft.). The planning application was renewed in 2012.

- *St. Marys Gate*

Clowes Developments have consent in place for the development of new offices extending to 600 sq.m. (6,458 sq.ft.). The application was renewed in 2012.

Assuming that the City Gate scheme no longer has planning consent, the total amount of consented floorspace is 61,931 sq.m. (666,646 sq.ft.). The volume of new office accommodation that could be provided on both the City centre allocated sites and consented schemes is therefore 67,970 sq.m. (731,646 sq.ft.).

ii. Available Office Space

A review of properties available on the market has been undertaken through utilising the CoStar property web based search engine and also through liaison with commercial agents active within Derby. In addition, we have reviewed the Employment Land Assessment Report update from March 2013 in order to analyse available space. The results of our findings are shown in the table below;

CoStar Data For Available Office Space in Derby City centre as at March 2013

	No. of Units	**Floorspace**
New/Refurbished	3	3,805 sq.m. (40,954 sq.ft.)
Second Hand	58*	39,261 sq.m. (422,676 sq.ft.)
Total	**61**	**43,066 sq.m. (463,574 sq.ft.)**

* Includes four buildings vacated by DCC at Heritage Gate. The ability for letting as small units is not taken into consideration within unit numbers.

The table above shows that total volume of floorspace within the City centre is in the region of 43,066 sq.m. (463,574 sq.ft.). This volume of floorspace has increased considerably since the review undertaken in July 2011 where the volume of floorspace available was estimated to be around 23,225 sq.m. (250,000 sq.ft.). The increase in the overall volume of floorspace may in part be due to DCC's relocation to the Council House which has released an additional 13,935 sq.m. (150,000 sq.ft.) of Grade B floorspace on to the market. Furthermore, this volume of floorspace becoming available would not have been counterbalanced through the uptake of space within the Council House on the basis that prior to refurbishment this building was not included within available lettable space within the City centre.

The above factor is generally supported through review of the number of available properties within the City centre which as at July 2011 was 66 units, whereas for 2013, the total number of available units is 61 which is marginally lower, however consists of a more significant volume of floorspace.

It is also noted that market and economic conditions have remained extremely tough with a double dip recession and the UK narrowly avoiding a triple dip recession in the early part of this year. This is believed to have resulted in companies continuing with consolidation and downsizing or in some cases ceasing trading altogether.

This latter scenario is demonstrated through the consolidation of the Nationwide Building Society following their take over and the restructure of Derby College and redundancies which are currently undergoing consultation.

From our review of properties which are available on the market, one building is offered on a freehold basis, with six available freehold or leasehold and the remaining 54 properties are offered on a leasehold basis only.

In terms of unit sizes within the available stock, around 60% of this is less than 464 sq.m. (5,000 sq.ft.) with the remaining 40% being in excess of 464 sq.m. (5,000 sq.ft.) but generally smaller than 929 sq.m. (10,000 sq.ft.).

The majority of the accommodation in the City centre is either Grade B or C with around 40% of offices being classified as Grade C and therefore considered unable to meet requirements of modern businesses without extensive refurbishment.

A particular constraint of Grade C accommodation is the structure of such buildings, whereby floor to ceiling heights are generally insufficient to enable raised floors/suspended ceilings to be incorporated. This factor impacts on the ability to refurbish buildings to meet modern occupier requirements, particularly in terms of cabling and IT fit out within buildings. Hence, much of this accommodation remains vacant for a significant period of time and with very limited ability to be able to refurbish this to Grade A standard. Applying the assumption that around 40% of the total available accommodation in the City centre is Grade C quality, the total supply of space that may realistically be able to accommodate demand for offices in the City centre is estimated to be in the region of 28,840 sq.m. (278,144 sq.ft.).

The anticipated available supply of accommodation within the City centre is therefore considerably higher than the space reported within the 2011 report; however primarily as previously noted this increase is due to the significant volume of floorspace becoming available at Heritage Gate.

A schedule of available accommodation is contained within the appendices to this report.

iii. <u>Demand for Office Land and Buildings</u>

The ability to comprehensively identify levels of demand for office accommodation within Derby is not a particularly straight forward exercise given that not all of those organisations active in the market formally record and analyse enquiries. Therefore in order to seek to gain an understanding of the nature of enquiries within the Derby area and also to obtain an indication of overall level of space sought, a number of local property agents have been contacted in order to try and obtain and interrogate demand information.

A preliminary assessment of demand has therefore been undertaken through discussions with two property agents and we would report as follows;

a. Office Land

Through discussions with agents and developers, we have been unable to identify any specific enquiries for office land at this time. This is considered to be likely due to the number of developers who own land and have secured planning consent for schemes within Derby, which as noted earlier within this report equates to a supply in the region of 61,931 sq.m. (666,646 sq.ft.). All of these schemes are primarily competing for occupiers and have stalled due to the inability to pre-let sufficient space in order to facilitate development.

In addition, we are not aware of any enquiries for office land for bespoke development. Development by owner occupiers tends to be limited in the current market due to the reticence or ability to be able to commit to expensive property development projects and to secure bank funding in this regard. As noted within the market analysis, occupiers at this time generally have a preference for short term leasehold arrangements.

b. Office Buildings

Based upon discussions/information provided by two local property agents, the position relating to demand is presented as follows;

- Russell Rigby & Co Chartered Surveyors

  The primary view is that the underlying trend within the office market has remained flat during 2011 and 2012; however during 2013 there has appeared to have been spikes of interest and a greater number of more serious enquiries from companies seeking to relocate in 2013 and beyond. Therefore in terms of enquiries which have been recorded these are noted to be significantly higher than were recorded within 2012.

  On average, enquiries are anticipated to have increased in number by over 25% and in addition, in 2013 some long running enquiries have been successfully converted such as Balfour Beatty and their extended rail related requirement along with Datapath.

  The majority of enquiries do remain indigenous to Derby; however a subtle change during the last 12 months has seen the emergence of a number of requirements of businesses registered outside of Derby. It is hoped that given the very positive achievements made by the City recently and the initiatives being promoted by the City Council and Marketing Derby to sell the City centre to a much wider market, that this trend in interest from employers from outside of the City will continue. Clearly the lack of available new Grade A space within the City impacts on overall conversion of existing enquiries and the lack of new Grade A accommodation has meant that a number of existing Grade B buildings have been refurbished and been well received by the market. For example buildings such as St. Andrew's House, St. Helen's House, Pentagon House and Quarnmill House have experienced high levels of take up following refurbishment of these buildings.

  It is acknowledged that there are many other buildings available within Derby; however some of these are considered to be effectively obsolete and are simply unsuitable to be able to accommodate modern occupier requirements. Such buildings include Northgate House, Stuart House and in part St. Peter's House, although the latter building does offer accommodation with the ability to provide a range of office units, specifications and finishes.

  In terms of the nature of demand, as well as this being indigenous, it remains that the highest volume of enquiries are for properties of less than 464 sq.m. (5,000 sq.ft.). On average, in excess of 40% of enquiries are for buildings in this size range with over 20% of demand for properties between 464 sq.m. and 929 sq.m. (5,000-10,000 sq.ft.). The fewest number of enquiries is for properties in excess of 1,394 sq.m. (15,000 sq.ft.).

  The final point made by Russell Rigby was that the business centre/managed workspace scheme is considered to be a growing market and has the ability to offer accommodation, which differs from traditional office space and can offer business support and other services which is not typically provided by conventional office schemes. It is also noted there is a difference between companies seeking office accommodation on flexible license/lease terms and those companies which are sector specific and have much more focused needs, which extend beyond occupation of traditional office space.

- Innes England

  The company periodically monitor and analyse office market activity within Derby which is published on an annual basis within an Insight Report. Innes England have kindly provided a copy of the Market Insite Report 2008-2012, which specifically highlights information relating to both the availability and take up of office accommodation along with some commentary on enquiries.

  It is noted that the take up report provides data for the entire Derby area and does not purely present data for City centre activity levels.

  Taking each of these matters in turn, for availability the report states that total availability fell by 6.5% to 51,375 sq.m. (553,000 sq.ft.) with both Grade A space and good quality second hand space reducing by 9% and 59% respectively.

  Available office space within Derby is dominated by poorer quality second hand stock which is identified to make up around 77% of overall space. The report also refers to the delivery of Friar Gate Square and provision of the first Grade A supply in the City centre for over two decades.

  The overall availability rate is estimated to stand at around 14% total stock levels; however this reduces significantly to around 3% when poorer quality stock is excluded.

  In terms of take up, the report states that levels remained below the 10 year average level of around 20,438 sq.m. (220,000 sq.ft.) for the second successive year.

  Take up for 2012 is estimated to be around 18,673 sq.m. (201,000 sq.ft.). The two largest transactions for 2012 were completed in the third quarter with the Derbyshire NHS acquiring 2,149 sq.m. (23,131 sq.ft.) at St. Andrew's House, London Road, whilst Balfour Beatty Rail took 1,858 sq.m. (20,000 sq.ft.) of newly refurbished space at Pentagon House on Sir Frank Whittle Road. Outside of these two transactions, the main focus of activity was on smaller lettings, with disposals for offices of less than 929 sq.m. (10,000 sq.ft.) accounting for two thirds of this year's take up.

  Although other commercial surveyors in Derby were contacted, they declined to engage in discussions in respect of this study.

iv. Take Up Rates

Analysis of take up rates is a useful mechanism in helping to assess overall levels of demand in the market place through the conversion of enquiries in to the take up of space within a given time period. It is recognised that there are issues in terms of the accuracy of this information, particularly where there are shortages in supply of accommodation, means that enquiries that could readily be converted are not due to lack of available space.

Notwithstanding that, it is not always necessarily the case that all enquiries made are serious and take up rates particularly if analysed over a period of time and in context with the market can be a useful indication for the position of demand within the market place.

The take up of office accommodation within the core central area has been analysed utilising a range of information sources.

As noted above, discussions have been undertaken with various property agents and of those willing to participate in discussions, the consensus view was that take up rates for 2011 and 2012 were in the region of 18,580 sq.m. (200,000 sq.ft.) per annum.

Thomas Lister have also undertaken an assessment of take up rates for leasehold and freehold transactions for the period from 1st July 2011 to the 31st March 2013 utilising the CoStar property web database. The results of our findings are identified in the table below;

	Year			
	July 2011 – December 2011	**2012**	**Up until 31st March 2013**	**Total All Years**
Total No. of Transactions each year	14	34	7	55
No. of Freehold Transactions	6	14	3	23
Volume of Freehold Transactions	5,317 sq.m. (57,235 sq.ft.)	12,188 sq.m. (131,201 sq.ft.)	11,637 sq.m. (125,268 sq.ft.	29,142 sq.m. (313,692 sq.ft.)
No. of Leasehold Transactions	8	20	4	32
Volume of Leasehold Transactions	1,461 sq.m. (15,728 sq.ft.)	3,413 sq.m. (36,738 sq.ft.)	467 sq.m. (5,027 sq.ft.)	5,341 sq.m. (57,492 sq.ft.)
New/Refurbished Offices - Total	2	5	0	7
Second Hand Offices - Total	12	29	7	48
No. of Transactions for Various Size of Units	13 < 464 sq.m. 1 > 464 sq.m.	32 < 464 sq.m. 2 > 464 sq.m.	7 < 464 sq.m. 0 > 464 sq.m.	52 < 464 sq.m. 3 > 464 sq.m.

The key issues noted from the findings in the table above are detailed as follows;

- The data for years 2011 and 2013 do not represent a full year. For the purpose of analysis therefore the data has been projected forwards to provide a forecast for a full 12 months take up of activity.

- The application of the above approach enables evidence to be assessed over a three year period, although clearly some of the data obtained is based upon some elements of future forecasting as oppose to transactional evidence.

- Consistently across all three years, the number of leasehold transactions is greater than freehold transactions in terms of numbers; however the total volume of floorspace is lower. The reason for this is based upon transactions for leasehold acquisitions being for much smaller office units whereas freehold transactions tend to be for larger units of accommodation. Our analysis identifies that for each of the 3 years, the data contains a significant freehold acquisition, which to some extent has skewed the data.

- For the purpose of analysing likely take up rates, we have therefore interrogated all of the transactional evidence and sought to exclude unusual/significantly large freehold transactions, which are generally not representative of typical levels of activity within the market. In addition any purely investment transactions which do not result in the take up of floorspace have also sought to be excluded from the data. The total take up data across all 3 years including the elements of forecast are therefore detailed in the table below;

  <u>Table showing forecast take up rates and exclusions of investment transactions</u>

	No. of Transactions	**Total Volume of Floorspace**
2011	28	8,239 sq.m. (88,686 sq.ft.)
2012	30	8,730 sq.m. (93,972 sq.ft.)
2013	28	8,368 sq.m. (90,075 sq.ft.)

- Clearly the data in the above table has been subject to adjustment in seeking to try and provide a typical representation of take up rates over the three year period. To some extent therefore the above data must be treated with caution and could be considered to be subjective based upon analysis undertaken by Thomas Lister.

- The data in the above table does however seem to consistently demonstrate that take up across all 3 years is similar in terms of number of transactions. Overall volume of floorspace taken up across the 3 year period averages 8,446 sq.m. (90,911 sq.ft.) within the core central area only.

- It is further noted that the majority of transactions are for second hand office accommodation which is to be expected, given the situation relating to supply of accommodation within the City centre which has not changed significantly since the original Market Assessment was issued in 2011.

5.5 As noted within the 2011 report, one of the disadvantages in analysing take up rates is that these clearly do not reflect any latent demand which may exist particularly where there is a shortage in supply of high quality accommodation in specific locations and for a range of unit sizes.

5.6 The application of take up rates along with demand data is considered within later sections of this report.

5.7 One final point to note in respect of demand for accommodation within the City centre is that primarily this continues to be dominated by indigenous interest;

however property agents active within the City have confirmed that during 2013 there have been a growing number of enquiries from occupiers who are not currently located within the administrative boundaries of Derby which is particularly encouraging and considered to be attributable to initiatives and promotion of Derby by the City Council, Marketing Derby and through other positive events which have happened during the last 12 month period. The key challenge for Derby therefore is to be able to secure these enquiries from companies outside of the City to take up office accommodation within Derby.

6.0 Wider Market Assessment

6.1 This section of the report concentrates on supply and demand for the office sector outside of the core central area.

6.2 We have therefore utilised some of the evidence contained within the 2011 Market Assessment Report and extracted that data that relates to the wider market area. We have also obtained more recent market evidence up to the end of March 2013 and would report as follows;

i. <u>Supply of Office Land and Buildings</u>

Similarly for the core central area, the assessment of supply has been undertaken through identifying sites allocated for office development and mixed use schemes along with any schemes with planning consent in place for the provision of new offices. Similarly an assessment has also been undertaken of existing buildings available on the market; our findings are as follows;

a. Land Allocated for Office Use

Discussions with the Planning Authority have identified the following sites;

- *Holmleigh Way, Chellaston*

Around 3 hectares (7.4 acres) of land are allocated for high quality office development; however this site has been identified in the Preferred Growth Strategy for residential development and is therefore unlikely to come forward for office development.

- *Chaddesden Sidings*

There are two allocated employment sites within the former Chaddesden Sidings area. Chaddesden Sidings West (to the south of the Cattle Market) has 6.6 hectares (16.3 acres) remaining that is allocated for B1, B2 and B8. Chaddesden Sidings South, otherwise known as the Derwent/Chaddesden Triangle comprises 28 hectares (69 acres) and is allocated for B1, B2 and B8. Proposals are being drawn up by Network Rail/St. Modwen to bring the site forward for a mix of uses.

- *Heatherton Extension, Littleover*

Situated on the Rykneld Road, this land forms part of a wider comprehensive development project with 2.4 hectares (5.9 acres) of land allocated for B1 use.

A resolution to grant outline planning consent has been made by the Planning Authority subject to the developer entering into a Section 106 Agreement. The application is for a mixed use scheme and includes 15,000 sq.m. (161,463 sq.ft.) of B1 offices.

- *Manor/Kingsway Hospital Site*

Scheme proposals are for a mixed use development which includes 7 hectares (17.3 acres) of land allocated for B1a, b and c use. Kier Homes have been selected as developer and will commence with the delivery of the scheme initially with the housing element for which 700 units are anticipated.

The outline planning application (including the B1 office elements) for the whole site and reserved matters for phase 1 (100 homes) has now been approved.

- *Land to the South of Slack Lane*

This area extends to circa. 12.9 hectares (32 acres) and is identified as a major mixed use regeneration opportunity. Potential uses on this site include office use. There are however no proposals coming forward for this scheme at this time.

- *Markeaton Brook Mixed Use Area*

This is situated in relative proximity to the University and is primarily a student area, which is identified for regeneration. As such any future redevelopment could include some office development; however there are no known proposals coming forward for this part of the City at this time.

- *The Derbyshire Royal Infirmary Site*

The NHS has agreed to sell around 3.24 hectares (8 acres) of land to UK Regeneration for development for 300 new dwellings.

The outline application was approved at appeal in 2012 including 3,000 sq.m. (32,293 sq.ft.) of B1a and the developer is understood to be progressing with the scheme to implementation stage.

The combination of the above sites estimates that there is in the region of 17.2 hectares (42.5 acres) of office land although clearly this is somewhat subjective given that a number of schemes are proposed for mixed use and actual office development within these sites could be at variance to the current estimations made.

Overall therefore these sites may have the ability to accommodate around 78,900 sq.m. (850,000 sq.ft.) of new office development.

It is noted that of the above schemes, two of these have outline consent although one is subject to the developer entering into a Section 106 Agreement and therefore there is greater certainty as to the volume of offices potentially deliverable by these schemes, which equates to 18,000 sq.m. (193,755 sq.ft.). The timescales and volume of offices potentially delivered by the other schemes cannot therefore be reported with any degree of accuracy in terms of timescales for delivery.

b. Schemes with Planning Consent

With the exception of the two schemes noted above, where outline planning consent is either resolved to be granted or in place, no other schemes with planning consent for office development have been identified outside of the core central area.

ii. <u>Available Office Space</u>

The estimation of available office space outside of the core central area has been undertaken through utilising the CoStar property web based search engine, liaison with local agents active within Derby and in addition the Employment Land Assessment Report Update for March 2013. The results of our findings are shown in the table below;

Analysis of Floorspace Outside of Core Central Area

	No. of Units	**Floorspace**
New/Refurbished	41	13,563 sq.m. (146,000 sq.ft.)
Second Hand	72	45,298 sq.m. (487,601 sq.ft.)
Total	**163**	**58,861 sq.m. (633,601 sq.ft.)**

The total volume of floorspace available is therefore estimated to be in the region of 58,861 sq.m. (633,601 sq.ft.).

It is acknowledged that the overall volume of floorspace reported here is significantly in excess to that reported within Innes England's Market Insite Report which estimated available floorspace in the region of 51,374 sq.m. (533,000 sq.ft.). We understand that this difference in availability between the respective analysis undertaken may be due to the fact that the CoStar property web database identifies every available office unit including space on the peripheral areas within Derby, including allocated office accommodation above retail units and buildings which may be being promoted for change to alternative uses such as residential.

The Insite Report produced by Innes England may therefore be a more reasonable representation of available office space whereas the database to which we have assembled for analysis may include space which is not really deemed suitable or likely to be occupied as office accommodation. For the purposes of this report however we are utilising the availability figures identified by our own research given that we are unable to interrogate data within the Innes England Insite Report.

Analysis of our evidence base therefore identified that out of the 163 properties, 134 are offered on a leasehold basis, 6 on a freehold basis and 23 on either a freehold or leasehold basis.

There is a much higher element of new/refurbished floorspace available outside of the core central area which is due to the Pride Park, Wyvern Business Park, Litchchurch Plaza, Pullman Business Court and Jubilee Business Park schemes being delivered over the last 15-20 year period.

In addition, there has also been the refurbishment of a number of buildings including Quarnmill House, Pentagon House, St. Helen's House and St. Andrew's House which have provided a significant volume of refurbished space to the market. This position remains similar to that identified within the 2011 report.

In terms of the size of units available, the majority of these comprise units within buildings available for multi-occupancy with only four of the available units comprising single standalone buildings.

Furthermore, only 15 of the available units/suites provide a floor area in excess of 464 sq.m. (5,000 sq.ft.).

Given that the majority of the available office units consist of suites contained within floors within a multi-occupied building, there is the ability to be able to combine suites on individual floors or to take a number of floors within a single building, which would when combined have the ability to provide a total floor area significantly in excess of 464 sq.m..

Overall therefore, the evidence indicates that available space does have the ability to provide a flexible range of office floorspace through combining suites or taking a number of floors contained within individual buildings.

A schedule of available accommodation is contained within the appendices to this report.

iii. Demand for Office Land and Buildings

Through discussions with those agents that were willing to engage in discussions in respect of demand, a preliminary assessment of demand for both land and buildings is summarised below;

a. Office Land

Similarly for the core central area, we have been unable to identify any specific enquiries for office land at this time. The reason for this is anticipated to be due to the number of allocated sites outside of the core central area which have the ability to deliver office development subject to demand and also given two of the schemes which are now coming forward to the implementation stage which will deliver new office development.

Furthermore we were not made aware of any enquiries for office land for bespoke development at this time.

b. Office Buildings

Discussions which were held with agents active in the office market were summarised within Section 5.0 of this report and the information relevant to the office market outside of the core central area is that demand has primarily been concentrated to areas where there is space available such as Pride Park. Notably however, agents are of the view that there is now more interest in the City centre as an office location however, due to lack of availability, there has been take up of a number of refurbished buildings outside of the core central area.

There are clearly some requirements which do not wish to be situated within the City centre due to operational reasons. Ultimately however demand tends to be restricted to consider space which is available and in accordance with occupier requirements as opposed to having the choice as to whether to locate within the City centre or wider area.

iv. <u>Take Up Rates</u>

The take up of office accommodation outside the core central area has been analysed utilising a range of information sources.

In accordance with discussions with property agents, the view of take up outside of the core central area is that levels are considerably higher than within the City centre, which is primarily due to the availability of better quality space.

Thomas Lister have undertaken an assessment of take up rates for leasehold and freehold transactions for the period from the 1st July 2011 to the 31st March 2013 utilising the CoStar property web database. The results of our findings are identified in the table below;

<u>CoStar Data For Transactions Outside of the Core Central Area</u>

	Year			
	July 2011 – December 2011	**2012**	**Up until 31st March 2013**	**Total All Years**
Total No. of Transactions each year	27	40	5	72
No. of Freehold Transactions	5	5	2	12
Volume of Freehold Transactions	5,147 sq.m. (55,402 sq.ft.)	5,487 sq.m. (59,081 sq.ft.)	11,398 sq.m. (122,687 sq.ft.)	22,033 sq.m. (237,170 sq.ft.)
No. of Leasehold Transactions	22	34	4	60
Volume of Leasehold Transactions	579 sq.m. (6,233 sq.ft.)	9,683 sq.m. (104,230 sq.ft.)	726 sq.m. (7,818 sq.ft.)	10,988 sq.m. (118,278 sq.ft.)
New/Refurbished Offices - Total	9	20	0	29
Second Hand Offices – Total	19	19	5	43
No. of Transactions for Various Size of Units	21 < 464 sq.m. 6 > 464 sq.m.	32 < 464 sq.m. 8 > 464 sq.m.	5 < 464 sq.m. - > 464 sq.m.	58 < 464 sq.m. 14 > 464 sq.m.

As for analysis of data within the core central area, as the years 2011 and 2013 are for part years only, the data has been interrogated and for 2011 reviewed as part of the previous market report and for 2013 subject to future forecasting to give a potential indication of annual take up.

As for take up within the core central area, analysis has been undertaken of both freehold and leasehold transactions. The take up data is somewhat skewed by one or two large freehold sales, which the data shows tend to take place each year; however where single buildings in multi-occupancy by a number of tenants are acquired for investment basis, this does not represent take up of floorspace and on this basis such transactions have been excluded.

Therefore following further analysis of the take up data presented in the table above, the revised take up rates for each year, including full years for 2011 and 2013, excluding investment transactions, is shown in the table below;

	No. of Transactions	Total Volume of Floorspace
2011	50	6,528 sq.m. (70,269 sq.ft.)
2012	40	11,023 sq.m. (118,654 sq.ft.)
2013	20	3,904 sq.m. (42,024 sq.ft.)

It is noted that the data in the above table shows considerable inconsistencies year on year with volume of take up significantly different between all years. Most notably is the future forecasting for 2013, which based upon take up for the year thus far shows a very low level of take up, which is somewhat at odds based upon discussions which have been undertaken with local agents.

Therefore the data within the above table particularly for 2013 should be treated with some caution and therefore a more realistic estimate of take up for 2013 would be considered to be the average of take up in years 2011 and 2012. A more realistic estimate of take up for 2013 is therefore considered to fall within the region of 7,000 sq.m. (75,350 sq.ft.).

With regard to the general size of transacted space, across all years around 75% of transactions are for units of less than 464 sq.m..

It is also noticeable that the volume of new/refurbished offices that are transacted is now similar to the number of transactions for second hand offices, with the exception of 2011 where the number of second hand transactions significantly exceeded that for new/refurbished buildings. This may therefore be an indication of the fact that many of the existing schemes such as Pride Parkway and Wyvern Business Park are now nearing full occupancy meaning there is much reduced availability of new space now being available. This may also be in part demonstrated by the take up of newly refurbished buildings including Quarnmill House and others noted earlier within this report.

In terms of nature of occupiers taking floorspace outside of the core central area, again through a review of transactions this is primarily indigenous with a continued dominance by the transportation, aerospace and high technology sectors.

7.0 Summary Analysis

7.1 The evidence obtained through the market analysis is considered within this section of the report and seeks to identify any imbalances between supply and demand conditions, both within the core central area and the wider surrounding area.

7.2 In addition, the data for both of the market areas within Derby has also been combined and analysed to give an overall picture in relation to the office sector as a whole.

7.3 The findings of this analysis are as follows;

i. Core Central Area

7.4 The overall available supply has been based upon available buildings, with the ability for supply to be increased through delivery of schemes with planning consent in place along with other available land/schemes which could be delivered within the City centre.

7.5 Deductions have been made to the perceived amount of available buildings to take into consideration Grade C stock which is considered to be un-lettable in order to provide a more realistic analysis of available floorspace. The level of supply has then been compared to average take up rates used as an indication of demand in the market place to give an indication as to whether there is a surplus or shortfall of accommodation or space within the City centre and to how many years supply a surplus would equate to. The results of this analysis are detailed in the table below;

Table Showing Supply and Demand Analysis

Supply	Sq.m.	Average Take Up Per Annum Sq.m.	Surplus / Shortfall Sq.m.	Years Supply
Available Buildings	28,840	8,446	20,394	3.4
Plus consented schemes 67,970 sq.m.	96,810	8,446	88,364	11.46
Plus land 6,038 sq.m.	102,848	8,446	94,402	12.2

7.6 In summary the above table shows that there is an immediately available supply of office accommodation capable of meeting demand over a 3.4 year period which is adequate therefore only to meet demand in the very short term.

7.7 It is noted that the existing stock comprises a significant volume of Grade B floorspace with very little Grade A accommodation available, with the exception of Friar Gate Square.

7.8 The take up rates estimated do not include any provision for latent demand, i.e. those enquiries which remain active over a considerable period and cannot be accommodated through current office provision.

7.9 Furthermore it is noted that the years supply of office accommodation including consented schemes and land appears to be more than adequate to accommodate demand. Fundamentally this space is not currently available and furthermore would take time to deliver given the need for this space to be constructed. The key issue with this arises due to the fact that the majority of consented schemes have had planning consent for a period up to and in some cases in excess of five years and despite consent being granted during the peak of the economic cycle and highest levels of commercial activity, these schemes still failed to come to fruition.

7.10 It is therefore considered unlikely that in the absence of developers being able to secure significant pre-lets, which given current market and economic conditions is considered to be unlikely, that these schemes will not come forward in the short term.

7.11 Overall therefore, the overall supply of office accommodation remains critically low with a continued notable lack of Grade A and good quality accommodation.

ii. The Wider Area

7.12 The analysis of demand and supply for the office market outside of the core central area has been subject to the same analysis as detailed i. above.

7.13 The results of this analysis are provided within the table below;

Table Showing Supply and Demand Analysis

Supply	Sq.m.	Average Take Up Per Annum Sq.m.	Surplus/Shortfall Sq.m.	Years Supply
Available Buildings	58,861	7,000	51,861	8.4
Plus consented schemes - 0 sq.m.	58,861	7,000	51,861	8.4
Plus land 78,900 sq.m.	137,761	7,000	130,761	19.6

7.14 Overall the position relating to office provision is that a greater years supply is available extending over the short to medium term.

7.15 The key difference with the wider area is that there are fewer schemes with planning consent in place and therefore available supply is restricted to the short to medium term.

7.16 There is however a significant volume of land allocated for office development which has the ability to increase the overall years supply to nearly 20 years; however clearly timescales for bringing forward this land in terms of securing planning consent and completing the construction of this space is uncertain. Timescales for delivering individual moderately sized developments, assuming such schemes are viable and capable of securing necessary funding, may take around a period of two years to deliver. This time period allows for completing feasibility studies/detailed design, securing planning consent and completing the construction of the office buildings. This time period also assumes that there are no major constraints to be addressed or significant abnormal site issues during the course of development.

7.17 In order to enhance the potential pipeline schemes and to bridge the gap between that consented land and those schemes which are capable of early implementation, it would certainly greatly enhance the overall supply position if there were a number of schemes either with full consent in place or in the process of securing planning consent.

7.18 This issue in part may be addressed through the Manor Kingsway Hospital site and Derbyshire Royal Infirmary site, where developers have been selected to the scheme and are understood to be progressing towards securing consent in order to move the scheme through to delivery stage. The first phases of development are likely to be residential led with no certainty for timescales for delivery of the office elements of these schemes.

iii. Analysis of Combined Core Central Area and Wider Derby Area

7.19 In order to provide an overview for the office market within the administrative boundaries of Derby, demand and supply data has been combined utilising information in Sections i. and ii. above to put this overall position into context.

7.20 The results of this analysis are shown in the table below;

Table Showing Supply and Demand Analysis

Supply	Sq.m.	Average Take Up Per Annum Sq.m.	Surplus / Shortfall Sq.m.	Years Supply
Available Buildings	87,701	15,446	72,555	5.68
Plus consented schemes – 67,970 sq.m.	155,671	15,446	140,225	10
Plus land 84,938 sq.m.	240,609	15,446	225,163	15.57

7.21 The key issues noted within the table above is that in terms of available office buildings, the overall years supply at nearly 5.7 years remains critically low and could be further exacerbated by some of the second hand buildings outside of the City centre being considered as Grade C space and potentially un-lettable.

7.22 Clearly the position relating to schemes with planning consent within the City centre enhances the pipeline supply position to 10 years; but this does mask the deficit of consented schemes within the wider area.

7.23 Positively, there is a significant volume of land allocated for office development within Derby; however the issues for this is that there is no certainty of delivery and actual supply of office accommodation may only be potentially deliverable over the longer term, given continuing challenging economic conditions.

7.24 It is again recognised that the combined average take up figures on a per annum basis are lower than the average take up rates reported within the Innes England Insite Report. The Insite Report estimates take up to be 18,673 sq.m. (201,000 sq.ft.) whereas the combined take up reported above at 15,446 sq.m. (166,265 sq.ft.) is 3,227 sq.m. (34,735 sq.ft.) lower than the figures reported. Clearly there is going to be disparities between analysis undertaken between various practices and as local agents it may be that Innes England have a greater detail of the market based upon their own activities. Ultimately it may also be that some transactions are simply not recorded on the CoStar property web database this resulting in a lower number of transactions being recorded. We have however for the purposes of this report relied on information obtained through our own research however would draw attention to the fact that we may be under-reporting a number of transactions which have actually taken place within the market place.

8.0 Managed Workspace Study

8.1 The Managed Workspace Study report was prepared on behalf of DCC and issued in May 2012.

8.2 For the purposes of the Office Market Assessment now being prepared, the Managed Workspace Study, the conclusions and recommendations have been reviewed. It is therefore proposed to identify key changes from matters previously reported within the workspace study and to update the overall supply and demand position.

8.3 *Changes Identified from 2012 Report*

8.4 The 2012 Study reported that DCC were considering investment in a number of existing work space schemes, along with potentially funding delivery of new schemes, which would form part of an initiative called Connect Four. The initiative proposed to link initially two of the existing work spaces schemes being Friar Gate Studios, Kings Chambers, along with the refurbished Shot Tower building and the proposed new Cathedral Quarter Enterprise Centre (CQEC).

8.5 Whilst the Connect Four scheme is still very much a live proposal, it is now called the Connect Scheme and comprises six buildings:

*Friar Gate Studios
*Kings Chambers
*Rosehill Business Centre
*Shot Tower (vacant pending refurbishment)
*Magistrates Court (pending refurbishment)
*CQEC (under construction)

8.6 It is noted that four of the above schemes comprise existing buildings and are currently operational as managed work space centres. Shot Tower is an existing building but is vacant and uninhabitable, thus in need of comprehensive refurbishment.

8.7 The Magistrates Court is a prominent Grade II listed building with the refurbishment works due to commence by October 2013. CQEC is currently under construction and due to complete in June 2014. The total floor space within the Connect initiative therefore extends to 6,155 sq.m. (66,265 sq.ft.) in total. It is noted that 3,275 sq.m. (35,255 sq.ft.) is existing space with the ability to deliver 2,880 sq.m. (31,000 sq.ft.) of new floor space.

8.8 This overall volume of floor space is slightly higher than the total anticipated level of managed work space accommodation reported in 2012 of 4,828 sq.m. (51,971 sq.ft.) to the current levels now reported. The Connect Initiative will potentially now provide an additional 1,327 sq.m. (14,284 sq.ft.) of workspace.

8.9 The total number of schemes included within the managed workspace schedule has also been altered from the 2012 study. A number of schemes have been deleted from the schedule of managed work space accommodation and overall floor area calculations. The reason for this is due to the fact that a number of schemes provide independent/self-contained office units within a single building and do not provide any element of management or business support. The schemes that have been deleted from the schedule are therefore included within the analysis of office accommodation and accounted for within earlier sections of this report.

8.10 The schemes which have been excluded from analysis are as follows:

*Southgate Business Innovation Centre
*The School House Business Centre
*Dovedale House, Wilson Street

*Halliday House, Wilson Street
*The Old Court House
*St Michael's Studios
*Pentagon House

8.11 In addition, Beaufort Street Business Centre is now wholly utilised as a Corporate Building for DCC for business operations and has been removed from the schedule.

8.12 *Analysis of Supply*

8.13 The assessment of supply focuses on twelve centres within Derby and the commuter catchment area and excludes those schemes which do not provide any form of Management/Business/Administration Services and or Business Support.

8.14 Full details of all of these centres including facilities and services available along with occupancy costs were fully documented within the 2012 report. Discussions have been held with managers of these centres and we are informed that much of this information remains relevant and has not changed during the last twelve months. This report does not therefore regurgitate information contained within the 2012 study; however the key changes relating to supply are presented in the table below.

Name& Provider	**Floorspace**			**Occupancy Levels**	**Sector Specific**
	Total	**Type**	**Range**		
Banks Mill Studios (UoD)	644sqm (6,931 sq.ft.) (38)	Office/ Studio	65-315 sq ft	90-100%	Creative Industries
Innovation Zone (UoD)	142sqm (1,528sq ft) (9)	Offices Furnished	13-17 Sq ft	100%	Aerospace/Rail/Engineering/High Technology
Network House (UoD)	108sqm (1,162sq ft) (11 offices)	Offices Clean	86-107 Sq ft	100%	Architects and Designers
The ID Centre (UoD)	658sqm (1,083sq ft) (32 units)	Offices fully furnished	102-484 Sq ft	87%	Rail Technology and Aerospace
Friar Gate Studios (DCC)	1,687sqm (18,163sq ft) (40 units)	Offices	275-1,190sq ft	76%	Creative Industries
The Brian Clough Business Centre (DEA)	2,581sqm (27,783sq ft) (20 units)	Industrial/Manufacturing limited office	531-2,180sq ft	78%	No
The Derwent Business Centre (DEA)	2,787sqm (30,000sqft lettable) (42 units)	Offices	230-1,800sq ft	70%	No
The College Business Centre – Victoria Properties Ltd	1,938sqm (20,864sq ft) (46 units)	Offices	107-1,500sq ft	87%	No
Rosehill Business Centre DCC and Derbyshire First Investments Ltd	1,337sqm (14,392sq ft) (39)	Offices/Workshops/Retail	Offices 173-641sq ft Workshops 207/408sq ft	76%	No

Name& Provider	Floorspace			Occupancy Levels	Sector Specific
	Total	Type	Range		
Derby Business Centres – Derby Business Centre	380sqm (4,091sq ft) (16)	Offices	79-966sq ft	2 available 70% occupancy	No
DD Enterprise Centre – Disability Direct	124sqm (1,337sq ft) (10)	Offices/Workshops		80%	No
Kings Chambers	251sqm (2,700sq ft) (19)	Offices/Retail/Gallery	89-2,365sq ft	98%	No

8.15 The analysis of supply taken from data within the table and also based upon discussions with various Centre Managers, establishes the following key data;

- The total of twelve managed work space schemes provide around 12,682 sq.m. (136,512 sq.ft.) of floor space.

- Centres collectively provide around 336 Office/Work Space units. The reason for a similar number of units being provided as recorded within the 2012 is due to the fact that the Brian Clough Business Centre has undergone partial refurbishment to upgrade and subdivide large units within the centre, which simply did not let to provide a higher number of smaller offices/studio work space.

- The average occupation for the centres is in the region of 83%. This has increased from 76% as reported in 2012.

- Vacant floor space equates to circa 2,378 sq.m. (25,597 sq.ft.) although it is noted that some of this vacant space within the Brian Clough Business Centre is not actually available pending completion of refurbishment works. A total of eight centres are either modern or have been refurbished to a good quality. The remainder comprise older but reasonable quality second hand properties, the majority of which are considering refurbishment, pending the ability to secure funding.

- Without exception, it remains that all of the centres with vacant space report that the highest levels of void and most difficult units to let are those larger sized units in excess of 46 sq.m..

- Based upon our review, there are three centres being members of the UKBI and thereby meeting definitions of incubator schemes. As for 2012, these schemes are Bank's Mill, The Innovation Zone and the ID Centre.

- Rentals for the various schemes have not been subject to increases throughout any of the Centres. The only increases that have been implemented are for those schemes where there are stepped rentals and the tenant's progress to the next period of the lease at an increased rent, or in some cases where service charge costs have increased marginally.

- The only other potential additions to the supply of managed workspace accommodation relates to the proposed Innovation Centre at the Global Technology Cluster Site (GTC) for which an ERDF Application has been made for Capital Funding to facilitate delivery of this Centre and CQEC which is anticipated to commence on site in June 2015. Additional space will also be provided through the refurbishment of the Magistrates Court, King's Chambers and Shot Tower at 1,579 sq.m., 121 sq.m. and 137 sq.m. respectively.

- In addition, we are aware that Derby Theatre are also in the process of submitting an application for ERDF Funding for the conversion of a University of Derby former Arts Centre to provide an Innovation Hub for Media, Arts and Creative Industries Sector (Northlights Innovation Centre). The refurbished building will provide 2,666 sq.m. of high quality floorspace.

- Clearly the delivery of the Innovation Centre and Northlights schemes are subject to securing ERDF Funding. It is understood that in the case of both schemes, without ERDF Funding being secured, neither project will be in a position to proceed.

8.16 *Demand*

8.17 The position relating to demand has been updated where necessary based upon discussions with the Centre Manager's and in some cases their appointed Agents.

8.18 At the time of preparing this report, discussions have been held with nine out of twelve Centre Manager's/Agents with only three centres where we were unable to obtain a response.

8.19 Based upon the various discussions held in respect of enquiry levels for space within the various centres, it was evident from discussions that overall levels of enquiries have increased slightly during the last twelve month period. Particularly notable is the Brian Clough Business Centre as the refurbishment of existing larger factory units to create much smaller office and workspace units has generated additional interest for this space.

8.20 A summary of enquiry numbers received is summarised in the table below;

Number of Centres	Number of enquiries received per Month
6	1-2
4	2-3
2	5-7

8.21 Discussions with all of the centres confirmed that rentals charged have been maintained at the same levels as at May 2012 with the only changes in occupancy costs being a slight increase in service charge. The increases in service charge costs have been implemented only where supplier costs have increased and are therefore passed onto occupiers of the building. The exception to this is Friar Gate Studios where following refurbishment of the suites and enhanced broadband availability, rentals have been increased by £21 per sq.m. (£2 per sq.ft.), to reflect the enhanced quality of space.

8.22 It is also noted that two of the University of Derby schemes, the Innovation Zone and Network House are 100% occupied. This situation means that enquiries for space within these centre's they cannot be accommodated. Potentially this demand may remain wholly unsatisfied if enquiries cannot be accommodated within other centres. Alternatively occupiers may have to take space within other centre's which do not meet with their specific requirements and could potentially hamper business development and growth.

8.23 It is further noted that due to ongoing refurbishment works at Friar Gate Studios, there will be no space available until October 2013 when the works are completed.

8.24 Without exception all of the centre's confirmed that the majority of enquiries continue to come from the local area with a few notable exceptions being low number of regional and national companies in occupation or seeking space; albeit these continue to be restricted to primarily the charitable and professional organisations.

8.25 Enquiries continue to be generally varied across the range of sectors including creative industries such as Website Design, Internet/Software Companies, Graphic Design, Media and Marketing, Training Organisations, Professional Occupations including Accountancy and Engineering Consultancy Services. Unsurprisingly as the majority of the managed workspace schemes are targeting new start up business and fledgling companies, tend to be sole traders. Employee numbers often increase to around two to three over a three year period.

8.26 *Analysis of Current Provision*

8.27 The section of this report analyses supply and demand conditions across the twelve identified centres, to ascertain whether there continue to be any mis-matches as was identified within the 2012 study.

8.28 Our analysis of the position twelve months on from the 2012 study is summarised as follows:

8.29 *Supply*

8.30 Key factors relating to the supply position are as follows:

- There are a total of twelve managed workspace schemes providing a total floor area of circa 12,682 sq.m. (136,512 sq.ft.).

- Out of the total floor space available, around 2,378 sq.m. (25,597 sq.ft.) is vacant. This equates to a vacancy rate of circa 18.7%.

- Three out of the twelve centres are considered to be high quality being the Bank's Mill, Innovation Zone and ID Centre. A number of other schemes have benefited from refurbishment and provide good quality space being Network House, Friar Gate Studios and The Brain Clough Business Centre. The Disability Direct Scheme is also a Modern building providing good quality space.

- It is also noted that there are further refurbishment proposals pending for a number of other projects being King's Chamber, Shot Tower and the Magistrates Court.

- The number of centres that provide either business support services or enable access to such services remains unchanged at eight, equating to 6,195 sq.m. (666,687 sq.ft.) of floor space. In addition, should the Innovation Centre at the GTC Campus and Northlights Innovation Hub be delivered, along with Cathedral Quarter Enterprise Centre, this would increase the overall supply to 14,541 sq.m. (156,523 sq.ft.) of floor space where business support services are provided.

Analysis of Supply – Existing Centres

i. Members of UKBI

Centre	Floor Area Sq.m.	Target Sector	Available Floorspace
Bank's Mill	644	Creative Industries	None
Innovation Zone	142	Aerospace, Rail, Engineering and High Technology	None
ID Centre	658	Rail, Technology and Aerospace	85 sq.m.

ii. Centres Where Business Support Services Are Provided

Centre	Floor Area Sq.m.	Target Sector	Available Floorspace
Network House	106	Architects and Designers	None
Friar Gate Studios	1,687	Creative Industries	202 sq.m.
Kings Chambers	251	None	None
The Brian Clough Centre	2,581	None	568 sq.m.
Disability Direct	124	None	Not known

iii. Managed Centres

Centre	Floor Area Sq.m.	Target Sector	Available Floorspace
The Derwent Centre	2,787	None	836 sq.m.
Rosehill Business Centre	1,337	None	321 sq.m.
The College Business Centre	1,938	None	252 sq.m.
Derby Business Centre	380	None	114 sq.m.

The following key factors can be drawn from the data in the tables above;

- In terms of centres with Membership to UKBI, there is only 85.5 sq.m. (920 sq.ft.) available and this available space is restricted to occupation by the rail, technology and aerospace sectors.

- Centres where full business support services are available, there is 770 sq.m. (8,288 sq.ft.) of floorspace available. Of this only 202 sq.m. (2,174 sq.ft.) specifically targets the creative industries sector. The remaining 568 sq.m. within the Brian Clough Business Centre is non-sector specific and therefore available to all.

- It is noted that the highest volume of space exists within the managed centres where business support services are not provided unless specifically requested and paid for by tenants where available. None of these Centres target specific sectors and business support services where available are therefore more generic. Available floor area within these buildings equates to 1,523 sq.m. (16,395 sq.ft.).

- It may of course be that a number of the centres which are non-sector specific do accommodate some companies for example from the creative industries sector or professional architects or designers. From our review of occupiers within these centres, this does not appear to be the case, where occupiers are more generic businesses as opposed to belonging to any of the specific centres sectors targeted by other centres.

- The overall provision of managed workspace schemes continues to be a Public Sector led activity. As noted earlier primarily this is due to the intensive level of management and business support services provided adds significant cost to the overall operation of the scheme. Such costs erode profitability and cannot be borne by Private Sector developers as the provisions of such services is generally not a viable proposition.

In terms of pipeline supply and the nature of this, this is detailed in the table below;

Pipeline Supply	**Additional Lettable Floor Space to be Provided**
CQEC	1,500sqm (16,146 sq.ft.)
Kings Chamber	121sqm (1,300 sq.ft.)
Magistrates Court	1,579sqm (17,000 sq.ft.)
Shot Tower	137sqm (1,470 sq.ft.)
Innovation Centre (GTC)	4,180sqm (44,995 sq.ft.)
North Lights Arts and Media Hub	2,666sqm (28,700 sq.ft.)
Total Floor Space	**10,183sqm (109,615 sq.ft.)**

Of the above pipeline supply, the nature and type of space to be provided is detailed in the tables below;

i. Full Business Support Services

Centre	Floor Area Sq.m.	Target Sector	Available
CQEC	1,500	None	June 2014
Innovation Centre	4,180	Aerospace, Rail, High Technology	March 2015
Northlights Arts and Media Hub	2,666	Creative Industries/Performing Arts	December 2014
Shot Tower	137	None	March 2015
Total	8,483 sq.m. (91,313 sq.ft.)		

ii. Managed Space

Centre	Floor Area Sq.m.	Target Sector	Available
Magistrates Court	1,579 sq.m. (17,000 sq.ft.)	None	September 2014
Kings Chambers	121 sq.m. (1,302 sq.ft.)	None	September 2014
Total	1,700 sq.m. (18,299 sq.ft.)		

Total pipeline space 10,183 sq.m. (109,615 sq.ft.).

Analysis of the above floorspace indicates the following issues;

- Total pipeline supply assuming all of this secures funding and becomes deliverable is 10,183 sq.m. (109,615 sq.ft.).

- The above table shows that pipeline supply of centres where full business support services will be available extends across four centres at 8,483 sq.m. (91,313 sq.ft.).

- Out of the five centres, only two of these will restrict occupancy to sectors being the Innovation Centre and the Northlights scheme, targeting the aerospace, rail, high technology and creative industries/performing arts sectors respectively.

- The tables providing information relating to existing centres and pipeline schemes therefore demonstrate that there are only two schemes which will target any one specific sector. The combined space within these schemes is 6,846 sq.m. (73,692 sq.ft.) and equates to 67% of pipeline space. The Innovation Centre alone provides 41% of pipeline space.

- Although fairly significant volumes of floorspace are proposed to be provided, this will provide flexible accommodation with a mix of sector and non-sector specific schemes to be provided.

8.31 *Demand*

8.32 Demand and enquiry information is confirmed to have been subject to a marginal increase in the number of enquiries. Given that the market and economic climate is not considered to have changed significantly during the last twelve month period, for the purposes of this report, overall enquiry numbers have been assumed to be as reported within the 2012 study.

8.33 It is noted that within the 2012 report a number of key assumptions had to be made in terms of estimating overall volume of floor space demanded, as this level of detail was simply not available from the majority of centre's contacted. It is therefore assumed that the total volume of space subject to enquiries remains in the region of 10,219 sq.m. (110,000 sq.ft.).

8.34 It is reiterated for this update that the conversion rate identified within the 2012 Study is to be utilised within this analysis. The conversion rate of 19% was calculated based upon take up rate across the University of Derby and The City Council Centres. The conversion rate remains to be considered conservative and the reason for the application of this rate is due to the fact that a number of Centres are constrained due to limitations on availability of space. Furthermore at the time of writing this report, no additional floor space has been delivered through any of the pipeline schemes and the ability to improve upon this rate restricted.

8.35 The conversion rate has also remained unchanged based upon discussions with Centre Managers who advised that either due to available floor space being constrained or space not yet available pending completion of refurbishment that enquiries are either placed on waiting list or if requirements are immediate, seek alternative accommodation.

8.36 The application of the conversion rate when applied to the floor space demanded equates to a conversion rate of 1,942 sq.m. (20,900 sq.ft.). Assuming demand based upon perceived levels of enquiry is circa. 10,219 sq.m. (110,000 sq.ft.) this means that around 8,277 sq.m. (89,100 sq.ft.) of enquiries are not converted into actual uptake.

8.37 In summary it is recognised that the applied conversion rate continues to be low and therefore the data should be treated with caution given the number of assumptions that have had to be made. Clearly this position is underpinned by the fact that as at this time although a number of the units are undergoing or pending refurbishment these works are not yet completed. Furthermore, at the time of preparing this report, there have been no net additions to the overall supply of existing managed workspace.

8.38 *Assessment of Overall Provision*

8.39 The analysis of demand and supply conditions strongly indicates that there continues to be a significant under-provision of high quality incubator and managed workspace schemes in the market.

8.40 It is anticipated that there is around 2,378 sq.m. (25,597 sq.ft.) of floorspace available with anticipated take up rates of 1,942 sq.m. (20,904 sq.ft.) per annum. On this basis it is established that there is around 1.2 years supply of floorspace available. Crucially however; given that some of this floorspace is sector specific, it means potentially that some of this demand may not be suitable or able to be accommodated within the existing availability of space and highlights the requirement for additional provision of managed workspace.

8.41 Furthermore, where demand is for managed space specifically for the aerospace, rail and high technology sector, the current lack of such available space may mean that some demand remains unsatisfied.

8.42 The provision of pipeline space potentially provides a mix of accommodation with the ability to target aerospace, rail and high technology and creative industries sector with the balance of schemes providing more generic business space. On this basis overall supply would increase by a further 10,183 sq.m. (109,612 sq.ft.) which in simple terms may provide 5.24 years supply of additional floorspace. This overall years supply is however not strictly accurate, given that this floorspace is not available to all sectors and for example overall supply suitable for the creative industries sector will be much lower than this new supply indicates.

8.43 In addition, there will also be a delay for the delivery of pipeline schemes with potentially the first space being available by September 2014. Unless space becomes available within some of the University schemes, which are currently operating at 100% occupancy, new start-up businesses and fledgling companies within this sector seeking specialist space will be excluded unless space becomes available in these centres or the Innovation scheme as part of the GTC is delivered.

8.44 Similarly the overall availability of space within the creative industries sector remains to be critically low with such companies either having to occupy more traditional accommodation, which is likely to be unsuitable for start-up companies or to occupy other managed workspace which may not strictly cater for their specific requirements.

9.0 Review of Other Studies/Reports

9.1 Discussions have been undertaken with DCC in respect of any Studies/Reports which have been commissioned since 2010, which may have some relevance to the Derby office market.

9.2 In addition to discussions with DCC, a review has also been undertaken in relation to various other potential sources of reports including D2N2 and other property professionals websites who may be involved in research and analysis of various property markets.

9.3 Our review has only identified the production of two reports since this time and these are briefly summarised as follows;

i. <u>Derby City Centre Regeneration Framework – January 2012</u>

The purpose of the Derby City Centre Regeneration Framework (CTRF) was to set out the key priorities to guide and co-ordinate investment in and the future development of, Derby City Centre.

There are five key themes identified within the CTRF, including the establishment of a Business City, delivered by way of sustainable economic growth, which in part is to be addressed by the lack of high quality office accommodation within the city.

The CTRF identified twelve priority projects which are noted as follows;

*Friar Gate Square
*City Gate House
*Central Square
*Sadler Square
*No. 1 Cathedral Green
*Silk Mill
*Riverlights Phase 2
*Becket Well
*Friar Gate Goods Yard
*Nightingale Quarter
*Castleward
*Railway Station

Ten of the above schemes either includes or has the potential to include delivery of office space. The provision of offices within these schemes would clearly increase and enhance overall supply and particularly within the core central area.

ii. <u>Derby HMA Employment Review; Forecasts Update – March 2015</u>

This report was provided to update forecasts for requirements of employment land over the period 2008 to 2028, for three local authority areas including Derby City

The report does not assess or consider supply of employment land and floor space or any potential supply/demand imbalances.

The preparation of the report did however; include consultation with a number of organisations including agents in respect of the position relating to the office market within Derby. Some of the findings of this report have been referenced to within earlier sections of this report, but in essence clearly identified the success of Pride Park in attracting occupiers to invest in Derby, but identified a shift in focus with occupiers increasingly interested in taking space in the City Centre. Demand for freehold space comprises a notable element of the City Centre's office market.

Furthermore, consultees identified a need for new Grade A office space to be delivered in Derby City Centre and also on the periphery of the City as general business park type developments, in recognition that there is an element of market differentiation between these types of developments.

9.4 The details and findings of the above reports are therefore largely consistent with the key issues and messages identified through the preparation of this updated Market Assessment.

10.0 Future Prospects For Office Market

10.1 The current market and economic position remains challenging on a UK wide basis which continues to impact on Derby, including the potential for economic growth and delivery of major development projects.

10.2 Notwithstanding this, there are growing reports that there is greater optimism for improvements within the economy as we progress through 2013 and this is a message being echoed by a number of agents and organisations within Derby.

10.3 In addition, the City has been able to generate many positive news stories through the City such as the continued success of Rolls Royce as the power house of the local employment base, along with much improved future prospects of other major employers including Bombardier who have managed to secure a number of significant new contracts. Toyota is another example where the company has overcome financial and trading difficulties to secure the position as the world's number one car manufacturer. Ultimately economic benefits should gradually begin to be delivered through additional business activity helping to promote growth within the economy.

10.4 The future prospects for the office markets within Derby have therefore been considered against the economic and property market context as noted above.

10.5 In updating this market assessment report, two key issues have really been identified which affect the office sector in terms of future prospects.

10.6 The first issue is that overall levels of confidence of businesses within the office sector continues to be weak. This lack of confidence translates into an unwillingness to commit to expensive property transactions on a long term basis, given the continued fragility and uncertainty relating to the economy. Therefore as evidenced through the market analysis, the preference for property acquisition tends to be on a short basis with any terms in excess of five years generally subject to break clause provisions.

10.7 A further issue relating to the requirements of office occupiers within the City is the lack of quality office accommodation. Whilst is has been evidenced that there is a significant supply of available stock, much of this is second hand and of relatively poor quality with a high predominance of grade C stock.

10.8 Although this stock is offered on flexible short term lease hold arrangements take up of available space is generally hampered due to issues relating to quality and inability for this stock to meet requirements of modern businesses.

10.9 The lack of available Grade A office space within the City has been fully recognised by DCC and significant measures through the establishment of the Regeneration fund made in order to encourage delivery of a number of stalled schemes.

10.10 Whilst this has achieved some success through the recent completion of the first phase of Friar Gate Square, the remaining schemes with Planning Consent within the City Centre have failed to come forward for fruition.

10.11 One of the issues preventing delivery of some of these schemes is the nature/size of floor space that would be delivered, which may not wholly be in accordance with current market requirements. However, we are of the view, based on discussions with developers that the primary issue preventing delivery is that in order to secure funding and to ensure that schemes are viable, institutional lease terms are required. Such terms including lease terms typically no less than 15 years provide certainty of an income and generate an adequate capital value of the completed building, which meets all developers costs and provides a reasonable level of profit. Such terms also meet with lending institutions requirements in terms of security and certainty of income generated, in order to service debt.

10.12 Many development projects are therefore thwarted by demand in the market place being for short term lease arrangements. Even where as in Derby, demand has been established for office accommodation, developers are simply unable/not prepared to undertake the risk of delivering schemes on a speculative basis. This position has been further reiterated even where there is the offer of funding from the Regeneration Fund to meet construction costs therefore mitigating on a reliance to secure bank funding, developers will not deliver schemes in the absence of 50% pre-lets on institutional terms being in place.

10.13 Clearly the above issues are extremely problematic to address although it is hoped that through the delivery of the Friar Gate Square and potential delivery of a number of other schemes within the City Centre including Magistrates Court, CQEC, Roman House, Connect that more flexible occupancy terms can be offered. This in turn may assist in creating activity and stimulating confidence, which may be catalytic for further interest and activity within the office market.

10.14 Other incentives to encourage business activity are being promoted through the establishment of the Enterprise Growth Fund and Unlocking Investment for Growth. The ability for Developers/Businesses to secure investment which may enable the upgrade/refurbishment and or fit out of existing vacant space to enable occupation, may make the occupation of space a more viable proposition.

10.15 These above initiatives could offer real benefits in situations where businesses are interested in taking new space within the City which may potentially meet a number of requirements in terms of location; however the costs of undertaking the fit out of the building are simply too prohibiting given that for many existing buildings this is Grade B space.

10.16 In summary therefore the establishment of the office market within Derby may need to consider other issues beyond the delivery of new and refurbished floor space and seek to target occupiers and potentially offer financial assistance to be able to contribute towards the fit out of buildings.

10.17 This in addition may help to keep rentals low, as this is not a cost that would be borne by the owner/developer and may also encourage a longer period of occupation through mitigating some of the costs of fitting out a building, along with costs associated with the relocation to alternative premises.

11.0 Derby Regeneration Fund Business Plan

DETAILS OF THE BUSINESS PLAN

11.1 The Business Plan prepared for the Regeneration Department 2011-2014 (dated 2013/14 final draft version 3) has been provided for information purposes for review as part of the Market Assessment Report.

11.2 The purpose of the Business Plan is to communicate effectively within the Council what is planned to be achieved in 2012/13, in support of the City's Vision – Derby – Passionate About Progress.

11.3 The Business Plan identifies the eight key outcomes where DCC are to work together with the public, private and voluntary sector partners in order to achieve these outcomes. The key outcome relevant to the office market is a thriving sustainable economy and a skilled and motivated workforce.

11.4 Incorporated within this Business Plan are the key objectives for the Regeneration Department which essentially concentrates on delivery of the Regeneration Fund, City Centre Regeneration Framework which in turn includes a number of key regeneration projects and development opportunities.

11.5 The purpose of undertaking a review of the Business Plan is to consider whether the performance measures contained within the Business Plan are in accordance with the findings of the Market Assessment Report. Of particular importance is whether the specific indicators described within the Business Plan align with the identified need and demand for the provision of office space within the City Council administrative boundary.

11.6 In summary, the key Regeneration objectives are identified as follows;

- To increase the number of jobs created through projects where the Council has directly intervened – target yet to be identified.
- Provision of Grade A floorspace within the City centre office market - 2013/14 4,645 sq.m. (50,000 sq.ft.) and the target for 2014/15 9,290 sq.m. (100,000 sq.ft.).
- In addition, there is an Action Plan in respect of the regeneration projects which identifies a number of key work areas. These include the Regeneration Fund, Strategic Sites, GTC, Connect workspaces, City centre and attractive investment.

11.7 Key projects identified for delivery under the investment fund are summarised in the table below;

Project	**Timescales for Delivery**
Friar Gate Square	Completed
Webhelp TSC (Hero)	Completed
CQEC	To commence 6th June 2013
Magistrates Court	Summer 2013
Darley Abbey Mills	Commenced

Project	Timescales for Delivery
Darley Abbey Stables	June 2013
Balfour Beatty	June 2013
Roman House	Summer 2013

11.8 The majority of the above projects have already been considered within the Market Assessment analysis in terms of the office floorspace provided within these projects and how this impacts on demand and supply conditions.

11.9 The other projects within the Action Plan have also been reviewed and where there is a known office element to any of these schemes they have been included within the supply and demand analysis

SUMMARY

11.10 Having reviewed the key objectives for the delivery of Grade A office space it is noted that the Business Plan seeks delivery of 4,645 sq.m. (50,000 sq.ft.) in 2013/14 and 9,290 sq.m. (100,000 sq.ft.) in 2014/15.

11.11 The Business Plan also concentrates on the delivery of a number of key projects within the Regeneration Fund which will also secure some element of office accommodation.

11.12 Based on the demand and supply analysis undertaken within Section 7.0 of this report, it was identified that given availability of office floorspace and average take up rates, that there is only 3.4 years supply within the City centre and 8.4 years supply within the wider area. The combined results show a years supply of 5.68.

11.13 Therefore the provision of around 13,935 sq.m. (150,000 sq.ft.) of Grade A offices within the City centre would equate to around 1.65 years take up and enhance overall supply of office space within the City centre.

11.14 As a short term measure therefore the Business Plan is considered to be in accordance with the findings of the Market Assessment in that there is a chronic shortage of Grade A office space within the City centre and wider Derby area.

11.15 However in order to ensure that take up of new floorspace can be achieved, this needs to be in accordance with tenant requirements within the market place, i.e. on relatively short term lease arrangements and also delivered over a period of time so as not to flood the market with floorspace.

12.0 Conclusions

12.1 This updated Market Assessment report has been provided against a backdrop of continuing challenging economic and market conditions and despite this, the City continues to demonstrate relatively strong economic performance.

12.2 Much of the economic position relating to the City has not changed since the preparation of the 2011 report; and there does continue to be a potential weakness with a heavy reliance on large employers such as Rolls Royce in terms of providing employment and much supply chain activity within the City.

12.3 In addition, reducing Government investment in the rail industry means that this sector may also be subject to decline; however this may in part be addressed by the potential delivery of HS2 and the current lobbying for a station to be situated in Derby.

12.4 Since the publication of the 2011 report, there has continued to be a decline in public sector employment which impacts on employment within the City. This situation reinforces the necessity for additional job creation to be delivered within the private sector to readdress some of the job losses made.

12.5 The market position of Derby to some extent has also largely remained unchanged given the continuing challenging economic conditions. Development of new offices remains difficult primarily due to volatility within the market, uncertainty relating to demand, short term occupancy terms required by tenants and an inability to secure finance to fund construction.

12.6 Tenants still command a strong negotiating position given that many landlords are seeking to off-load vacant floorspace and mitigate overall liabilities, particularly in terms of empty rates, which becomes payable after the first 3 month void period.

12.7 In addition to short lease terms, tenants are also typically able to secure a rent free period and typically a 12 month rent free term can be secured for each 3 to 5 year term within the lease. In addition, for leases in excess of 5 years, commonly there are break clauses at year 3 and periodically throughout the duration of the lease if agreed for a longer term.

12.8 Landlords are also evidenced to be offering other incentives to secure tenants particularly to vacant space which can include a contribution to fit out costs in combination with rent free periods. A contribution towards fit out costs may also result in shorter rent free periods being agreed, meaning that buildings become income producing at an earlier time, which will be important to those landlords/developers who are likely to seek an early investment sale once properties are occupied.

12.9 Analysis of market transactions also identifies that stepped rents are frequently provided for within leases, secured on the basis of an initial low rent for the first year of the term which then increases on subsequent years of occupation. Clearly this assists in terms of tenants cashflow and can be particularly useful given that relocation to alternative properties can be a costly exercise and potentially a deterrent to occupiers considering relocating their business. If some of this cost can be mitigated through a reduced rental, at least in the first year of the term, this may provide an incentive to tenants to move.

12.10 The above measures commonly evidenced within the market place are derived through tenants being extremely cost conscious and this issue has also impacted upon the future occupancy and management of accommodation once companies are in occupation.

12.11 Tenants often now demand a much greater input into service charge payable and occupation of the buildings and those schemes with high service charges inevitably tend to have higher void rates. Tenants primarily will seek to off-set service charge costs against reduced rentals of the building wherever possible.

12.12 For multi-occupied buildings, tenants would also tend to be involved in the future management of buildings through establishing a Tenants Forum and along with input into the management of the building can also use this as an opportunity to liaise with other occupiers of the building and explore business and networking opportunities. Landlords often seek to encourage this and may in some instances adopt a more proactive approach in sign posting business support, funding opportunities and linkages to other organisations where this can be seen to incentivise occupation within a building and ultimately to retain those occupiers.

12.13 With regard to events which have taken place in Derby since the production of the 2011 report, despite very challenging market and economic conditions and difficult times reported for the likes of Bombardier and Derby College, much of the activity and press announcements for Derby have been extremely positive. For example the Regeneration Fund has been extremely successful since its launch in 2010 with the first new speculative offices at Friar Gate Square completed and investment made in a number of other key projects, some of which are due to commence on site imminently.

12.14 There has also been expansion and renewed activity by a number of key players within the City, dominated primarily by Rolls Royce but also positively by other companies such as Interfleet Technology, Severn Trent and Balfour Beatty.

12.15 There are also a number of new initiatives coming forward which will offer funding support to companies within Derby particularly the Unlocking Investment for Growth Fund and Derby Enterprise Growth Fund, which is hoped will facilitate additional business activity through existing companies being able to secure funding in order to enhance/expand upon business opportunities.

12.16 In terms of the review of the market, the report had separated activity within the core central area and that relating to the wider area in order to provide a comprehensive understanding of the office sector and respective markets within the whole of Derby.

12.17 In terms of the City centre, the assessment has identified that the total amount of development land allocated for office use extends to 1.61 hectares (4 acres) with the ability to accommodate around 6,038 sq.m. (65,000 sqf.t.) of new office development. In terms of schemes with planning consent the total amount of floorspace is 61,931 sq.m. (666,646 sq.ft.). Collectively therefore land and allocated schemes have the ability to deliver 67,970 sq.m. (731,646 sq.ft.) of office space.

12.18 Analysis of available office buildings identifies there are estimated to be 61 units available providing 43,066 sq.m. (463,574 sq.ft.). It is noted that this volume of floorspace has increased considerably since the review in 2011. The increase in floorspace is considered to be due to the four buildings vacated by DCC at Heritage Gate upon their relocation to the new Council House.

12.19 In terms of available space, it is noted that there still remains a considerable volume of available office accommodation that is considered to be Grade C quality and potentially un-lettable. Assuming that around 40% of this accommodation is of

Grade C quality, the total supply of space that may realistically be able to accommodate demand for offices is estimated to be in the region of 28,840 sq.m. (278,144 sq.ft.).

12.20 Demand for offices has been explored via discussions and information provided by two agents active within Derby and Thomas Lister's own research utilising the CoStar property web database. The review estimates that average demand for office accommodation within the core central area is in the region of 8,446 sq.m. (90,911 sq.ft.).

12.21 In terms of the wider market, land allocated for office use is estimated to be in the region of 17.2 hectares (42.5 acres), with the ability to accommodate around 78,900 sq.m. (850,000 sq.ft.) of new office development.

12.22 No schemes with planning consent in place have been identified outside of the core central area.

12.23 In terms of available office space, our research identified there are around 163 units available providing a total floor area of 58,861 sq.m. (633,601 sq.ft.). In terms of demand within the wider area this is estimated to be in the region of 7,000 sq.m. (75,350 sq.ft.).

12.24 Analysis of demand and supply conditions within the core central area therefore identify that supply of available buildings equates to around 3.4 years supply which increases to 11.46 years supply when consented schemes are included within the analysis. When land allocated for offices is added to total supply, the years supply increases to 12.2 years.

12.25 The overall years supply does not however include any provision for latent demand i.e. those enquiries which remain active over a considerable period of time and cannot be accommodated through current office provision. This has been highlighted as a critical matter particularly for the City centre where there is a complete lack of Grade A office floorspace available with the exception of the Friar Gate Square.

12.26 This years supply of property for a 3.4 year period is therefore realistically considered to be lower, given that much of the existing stock within the City is Grade B and cannot always meet the requirements of modern businesses.

12.27 In terms of the wider area, analysis of demand and supply shows a slightly more positive position with around 8.4 years supply of buildings available. Again there are likely to be issues that some of this available supply is simply unsuitable to meet the demands of modern businesses and the overall level of supply may only be adequate for a much shorter period of time.

12.28 It is also noted that there are no identified schemes with planning consent in place. The ability therefore to increase overall property supply within the short term is therefore limited, given the time that it takes to undertake feasibility and secure planning consent prior to development commencing on site and accommodation actually becoming available.

12.29 Conversely, for the wider area, the land which is allocated for office development is significant with the ability to deliver around 78,900 sq.m. of new floorspace. Assuming all of this land comes forward, the total years supply would extend to a 19.6 year period; however timescales for bringing allocated land forward is primarily unknown. In the short to medium term, timescales for delivery of new offices is highly uncertain and difficult to predict.

12.30 If the results for the core central and wider area are combined, the overall years supply increases to around 5.7 years. This years supply remains critically low and could be further exacerbated by some of the second hand buildings based within and outside of the City centre considered Grade C space and potentially un-lettable.

12.31 Overall therefore the Market Assessment clearly indicates a continued lack of good quality and Grade A office accommodation both within the City centre and to a lesser extent the wider area and a real need for new Grade A offices to be delivered within the Derby area.

12.32 It is noted that there have been a number of buildings which have been refurbished to provide good quality floorspace being St. Andrew's House, Quarnmill House and Pentagon House. These schemes have been met with high levels of success which are a strong indication of the level of demand which does exist within the market place.

12.33 One of the key issues identified as a potential barrier to the delivery of new office development relates to disparities between tenant demand and terms that developers are able and willing to offer.

12.34 As previously noted development finance is extremely difficult to secure unless schemes are subject to forward sales or pre-lets to strong covenants and in the latter case must be on institutional terms in order for the lending institutions to consider providing loan finance.

12.35 The position relating to Derby is that many of the office occupiers are indigenous and at best may only be of regional covenant strength with the majority local covenants only and certainly not the blue chip status as required by the lending institutions.

12.36 In addition, tenants are generally unable/unwilling to commit to institutional type leases and thus even where investment has been offered through the Regeneration Fund, developers have cited short term occupancy arrangements as a barrier to delivery given the risk and uncertainty involved with short term income generation and the ability to be able to dispose of completed and occupied schemes as an investment. The reason for this being that short term occupancy arrangements are not attractive to the investment institutions similarly to that of the banks who traditionally provided development finance. Uncertainty of income also pushes up investment yields and in some cases a fall in value in this regard could result in development costs exceeding completed project value, rendering schemes non-viable.

12.37 In such instances, developers have sought arrangements whereby the Council will take a headlease on institutional terms in order to be able to secure finance to fund developments and ultimately mitigate developers exposure in terms of voids within schemes.

12.38 The Managed Workspace Study, which was prepared on behalf of DCC and issued as a separate report in May 2012 has also been reviewed as part of this assessment. The findings of this are that demand and supply conditions strongly indicate there continues to be significant under-provision of high quality incubation and managed workspace schemes in the market.

12.39 It is anticipated there is around 2,378 sq.m. (25,597 sq.ft.) of floorspace available with an anticipated take up of 1,942 sq.m. (20,904 sq.ft.) per annum. On this basis it is established there is around 1.2 years supply of floorspace available.

12.40 Crucially however; given that some of this floorspace is sector specific, it means that some element of demand may not be suitable or able to be accommodated within existing availability of space.

12.41 Furthermore where demand is for managed space on a sector specific basis, where there is a lack of available space within such schemes, such as those operated by the University of Derby, this may mean that such an element of demand remains unsatisfied.

12.42 There is pipeline space proposed to deliver additional managed workspace schemes which would increase supply by a further 10,183 sq.m. (109,612 sq.ft.). In simple terms this equates to around 5.24 years supply of additional floorspace. This overall years supply is not however strictly accurate, given that this floorspace will not be available to all sectors with some of it restricted to the creative industries and high technology/aerospace/rail sectors.

12.43 Furthermore the delivery for this pipeline space is unlikely to deliver new accommodation until September 2014 at the earliest and therefore existing demand in the market place is dependent upon units becoming available within existing centres through tenant churn.

12.44 Future prospects for the office market have also been considered. The key challenge identified is as referred to earlier, being that the delivery of new Grade A office space is dependent not only on developers being able to secure the necessary development finance, but also being willing/able to deliver schemes in the knowledge that potential tenants of these buildings are likely to demand short term leasehold arrangements, as opposed to accepting institutional terms.

12.45 Clearly this issue is extremely problematic to address though one potential measure in this respect could be the ability to work with developers to ensure that in the first instance new office accommodation is not fully completed so that empty rates does not become payable if occupiers to the buildings cannot be fully secured.

12.46 In addition, the ability to offer financial incentives to encourage businesses to acquire new/existing space and to meet some of the costs relating to potential fit out/refurbishment of buildings may make acquiring new space a more viable proposition.

12.47 Incentivising occupiers to be able to undertake some of these fit out works may also benefit developers given that this would be a cost borne by the occupier of the building and could encourage a longer period of occupation through cost mitigation.

12.48 In preparing the Market Assessment a review has also been undertaken of the Derby Regeneration Fund Business Plan. A key objective within the Plan is to seek to secure the delivery of 13,935 sq.m. (150,000 sq.ft.) of new Grade A offices within the City centre. It is noted that the delivery of such space would only equate to 1.65 years of potential take up and therefore would enhance overall supply of office space within the City centre in the very short term.

12.49 A gradual increase in both occupier and developer activity should ultimately assist in stimulating confidence within Derby as an office location and the additional activity and potential reductions in supply of available space may bring tenants and landlords negotiating positions to more of a position of equilibrium.

13.0 Recommendations

13.1 Based upon the findings of our report, the following recommendations are made;

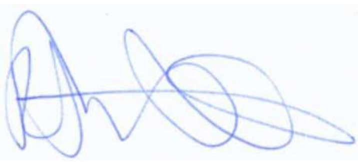
- To identify measures which may help to address and facilitate the refurbishment of the high volume of Grade B and Grade C office accommodation available within the market. The ability to facilitate the refurbishment of some of this space is considered to significantly enhance the quality and mix of overall supply and there is evidence within the market that refurbished buildings are well received by the occupier market.

- To continue to pursue opportunities which will enable the delivery of Grade A office accommodation within Derby City as a whole. Also to explore the ability to increase the overall number of schemes with planning consent in place within the wider Derby area.

- To explore the ability to identify any measures potentially in association with the Economic Development team and Marketing Derby to work with businesses/occupiers within the City to ascertain any requirements for the acquisition of new or expansion space. Where any such requirements are known, whether there is the ability to work with occupiers and provide financial incentives for example to enable the fit out of a building which may help in mitigating overall costs of undertaking business relocation.

- In conjunction with the above proposal, to ascertain whether there is any opportunity for investment of public sector funding in refurbishing/fitting out/acquiring buildings by occupiers in that longer term occupancy arrangements could be encouraged which may in turn facilitate developer activity.

- To continue with scheme proposals for the delivery of a number of managed workspace schemes and wherever possible to enable provision of business support services within new centres delivered. This may increase the overall survival rate of start-up companies and increase the number of SMEs within the economy, which ultimately should assist with diversification of the employment base and help to mitigate against the reliance on few large companies for the majority of employment provision within the City.



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APPENDIX I - SCHEDULE OF AVAILABLE SUPPLY

APPENDIX II - SCHEDULE OF TAKE UP – FREEHOLD AND LEASEHOLD COMPS

APPENDIX III - INFORMATION SOURCES