



1. **PURPOSE OF REPORT**

To provide an update on performance of the Council's Commercial Estate.

2. **RECOMMENDATION**

That the report is noted.

3. **BACKGROUND TO THE REPORT**

The Commercial Estate Review Report has been produced to update Finance, Audit and Performance Committee on the position of the Authority's commercial portfolio in relation to prevailing economic conditions.

Since the last report, two new Council assets namely The Atkins Building and The Greenfields Business Park have become operational with good occupancy figures achieved (76% and 100% respectively).

The Atkins Building has been successful since its opening with only part of the top floor, (Building 2) and the basement areas now void. A larger tenant (2OC) has taken occupation of Building 1B top floor, whilst all serviced offices continue to run at the 100% let level with a waiting list having been established.

Creative Hinckley, a not for profit organisation consisting of a collective of local arts and creative industries practitioners are now well established within the building. The Creative Hinckley Gallery has hosted numerous exhibitions, whilst the studios are home to both innovative and growing creative enterprises.

Greenfields provides an impressive sustainable element to the estate, with 18 units of varying sizes. The estate is 100% let with a waiting list building up.

Occupancy for the wider industrial estate has been high, but it has been blighted by outgoing leaving and the time taken to replace these. This has been particularly apparent at Merrylees and Sunnyside Park Industrial Estates.

CURRENT STOCK

The commercial estate consists of 112 units (industrial, office, retail and plots of land) and the Atkins Building.

The list of the estate is as follows:

- Sketchley Meadows Ind Est (25 units)
- Hinckley Business Park (14 units)
- Sunnyside Park (11 units)
- Merrylees Industrial Estate (16 units)
- Retail units at Castle Street/Church Walk (3 units)
- Retail units at Atkins Way, Burbage (2 units)
- Plots of land at Sketchley, HBP, Market Bosworth and Harrowbrook.(20 plots)
- Miscellaneous – (3 units)

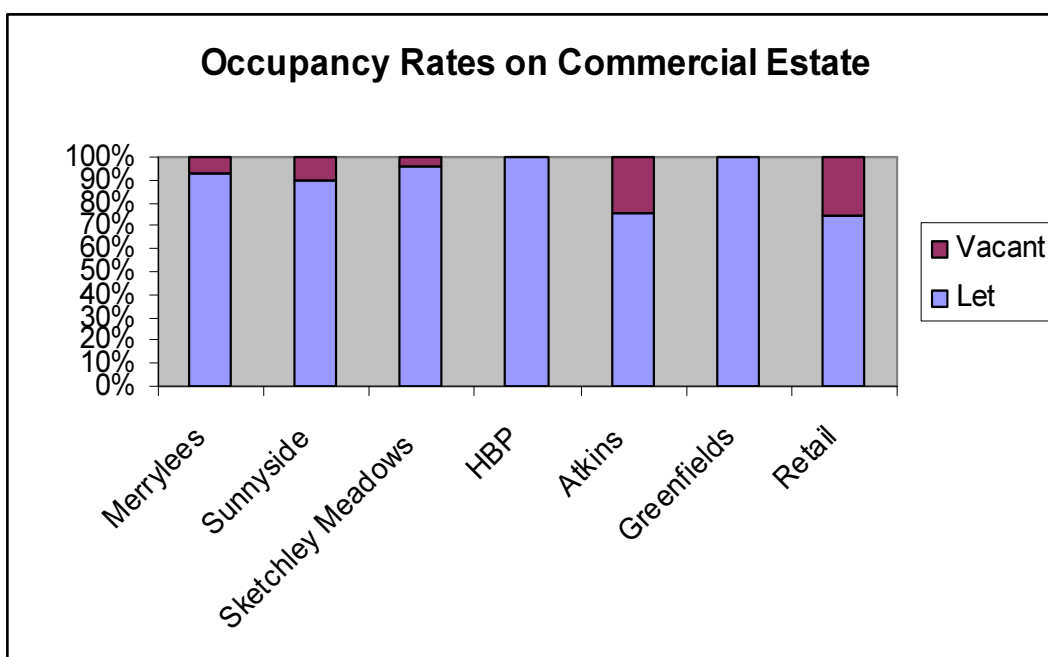
- Atkins Building (25 offices/sections)
- Greenfields Business Park (18 units)

The total rent roll for 2011/12 is projected to be the following:

• Industrial, land, retail and offices	£529,000
• Greenfields	£187,830
• Atkins Building	£188,426
Total	£885,256

With this projected to rise too £956,000 in 2012/13

Current highlights in terms of occupancy include Hinckley Business Park, retail units/offices and Greenfields which are at 100%. The Atkins Building occupancy continues to be built up accordingly.



CHURN AT INDUSTRIAL ESTATES

The leases in operation within the commercial estate encourage flexibility. They are operated on a 3 year basis, with a 3 month notice period for tenants wishing to vacate.

The small nature of the businesses and units added to the flexibility in the leases creates a churn of tenants.

In 2011/12 the following tenants have vacated units situated within the estate:

- Unit B Merrylees – Rent £8,000 per annum
- Unit 4 Merrylees – Rent £3,750 per annum
- Unit 6 Merrylees – Rent £3,750 per annum
- Unit 2 Sunnyside Park – Rent £5,500 per annum
- Unit 9 Sunnyside Park – Rent £5,500 per annum
- Unit 30 Sketchley Meadows – Rent £4,250 per annum
- Unit 15 Hinckley Business Park – Rent £11,250 per annum
- Unit 25 Hinckley Business Park – Rent £3,000 per annum
- Unit 16 Sketchley Meadows – Rent £10,000 per annum
- Unit 17 Hinckley Business Park – Rent £15,000 per annum

Of this list, the units which remain vacant to date are Unit B Merrylees (Rental £8,000), Unit 16 Sketchley Meadows (Rental £10,000) as well as Unit 3 Sunnyside (Rental £5,500 per unit)

ATKINS BUILDING

The Atkins Building is currently experiencing lettings at 76%. The areas of the building that are currently not let on a permanent basis include the basement Education Room and Partridge Suite (circa 4,500 square feet in total) and open plan office space in Building 2 totaling circa 3,200 square feet.

With the building currently being let at 76% and producing a projected rental income for 2011/12 of circa £188,000 a Net Yield of 5% will be produced which with increased rents in 2012/13 will rise to a yield of 6%.

The yield has been calculated by utilising the income, costs and market value figures. At the financial year ending 31/3/11 the value for the property was £1.81 million. Income (rent and service charge) is expected to reach £188,426 2011/12 whilst costs will be in the region of £100,000 (majority recouped through service charge)

The Net Yield is then calculated by:

$((\text{Income} - \text{costs})/\text{market value}) \times 100$

$((£188,426 - £100,000)/£1,810,000) \times 100 = 5\% \text{ 2011/12}$

$((£225,000 - £110,000)/£1,810,000) \times 100 = 6\% \text{ 2012/13}$

The office space is being marketed by Wards Surveyors, Office Broker and Flexi Offices whilst the basement rooms are marketed via HBBC. The Education Room although not having any long term tenants, has been successful in hosting various events such as the Hinckley beer festival (£1,000 rental fee charged) and a tie up with North Warwickshire and Hinckley College has been achieved for 2 days a week over a 32 week period. This amounts to £3,200 in rental charges. The Partridge Suite has and continues to have various meetings within the room with events also being arranged with the café.

GREENFIELDS BUSINESS PARK

Greenfields Business Park, which opened in October 2010 has proved to be a popular estate in the current depressed market and is currently 100% let. The tenant mix within the estate is strong with new and existing businesses represented.

With the estate currently being let at 100% and producing a projected rental income for 2011/1 of circa £187,000. The Net Yield is 5% which is expected to be replicated in 2012/13.

This has been calculated by using the income, costs and market value figures. The market value for the property valued in 06/07 was £4 million. Rents are expected to reach £187,830 2011/12 whilst costs will be in the region of £7,500.

The Net Yield is then calculated by:

$((\text{Income} - \text{costs})/\text{market value}) \times 100$

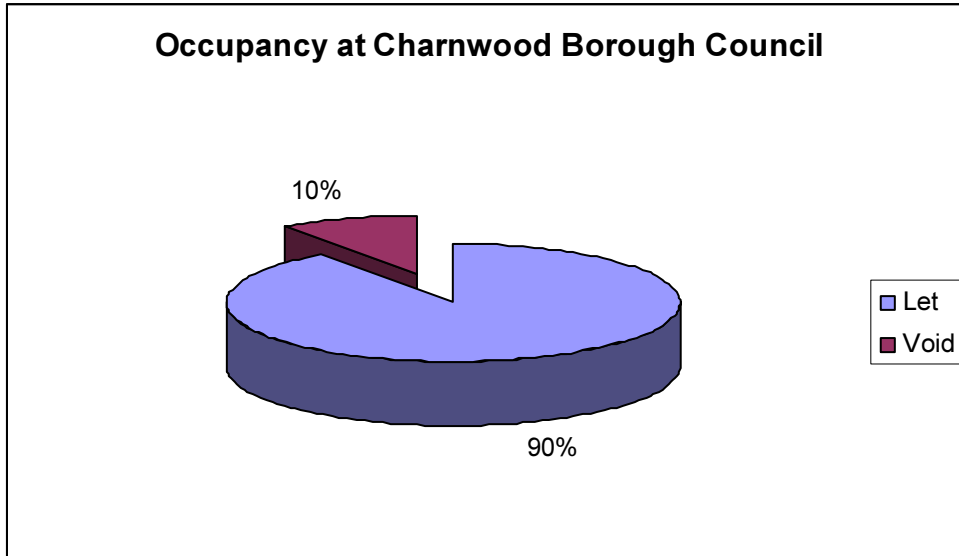
$((£187,830 - £7,500)/£4,000,000) \times 100 = 5\% \text{ 2011/12}$

$((£210,000 - £15,000)/£4,000,000) \times 100 = 5\% \text{ 2012/13}$

BENCHMARKING WITH OTHER LOCAL AUTHORITY ESTATES

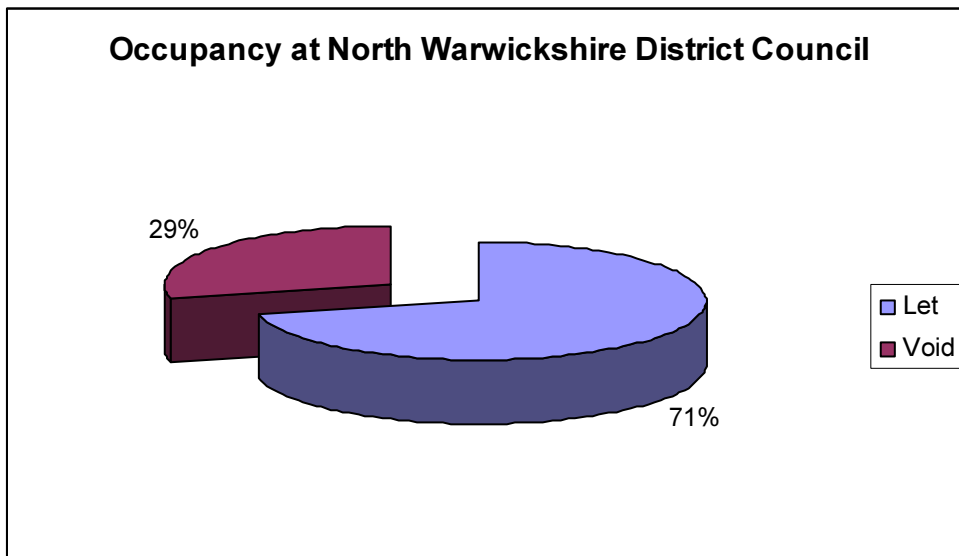
CHARNWOOD BOROUGH COUNCIL

The Charnwood Borough Council portfolio consists of 20 industrial units, numerous yards and 2 business centres. All areas are performing well with the business centres being particularly strong.



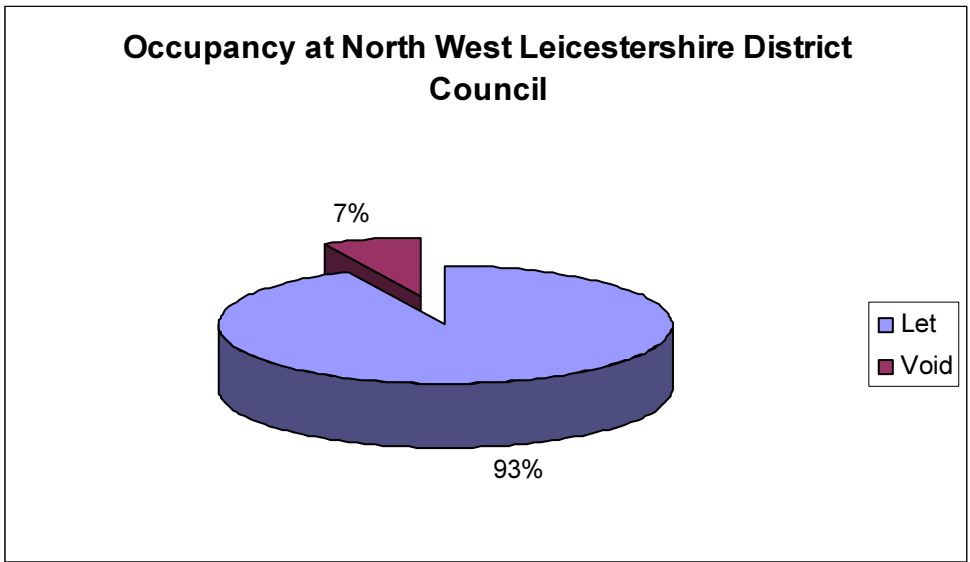
NORTH WARWICKSHIRE DISTRICT COUNCIL

North Warwickshire District Council operates a portfolio predominantly consisting of a mixture of retail and industrial units. The retail element of the estate is performing above expectations with a near 100% in lettings whilst the industrial units are performing below average.



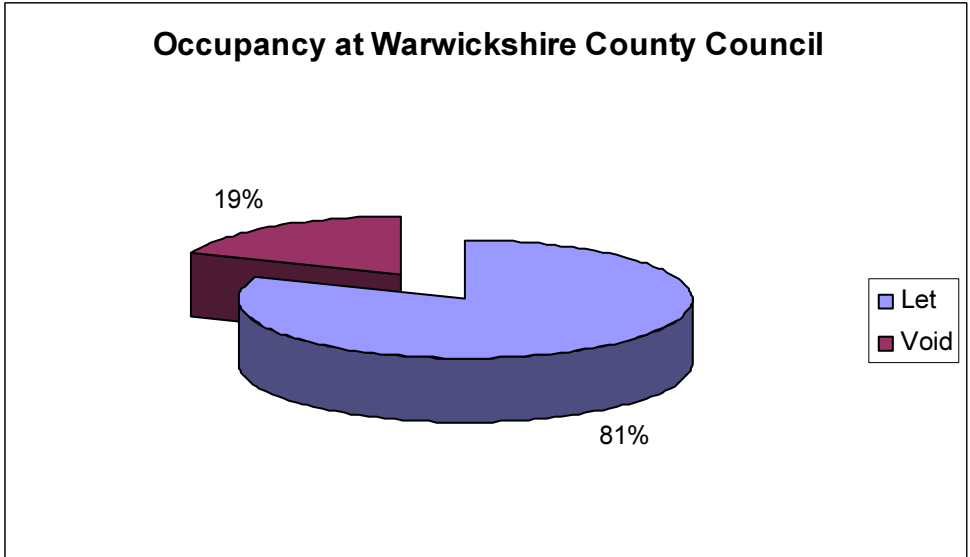
NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

The portfolio at North West Leicestershire is of similar size to that run by Hinckley & Bosworth BC. It features only 26 industrial units and is therefore weighted more heavily towards office space.



WARWICKSHIRE COUNTY COUNCIL

The portfolio at Warwickshire County Council consists of mixture of business centre's and industrial units.



FUTURE PERFORMANCE

Given the economic downturn experienced since 2008, the commercial estate occupancy rates in general have held up well.

As reported, there has been a high frequency of churn within the estate and a period of time required to re-let these but on the whole there has not been widespread movement.

Whilst our portfolio is now sufficiently broad providing fit for purpose starter business accommodation for a variety of business uses it should be noted that this has been achieved through continued investment in the buildings and associated infrastructure. Targeted maintenance and improvements to the existing stock have created desirable and affordable accommodation, whilst in recent years the aim has been to improve the quality on offer to help in lifting the number of employment opportunities available in the area. It is therefore key to remain focused on maintaining and improving the portfolio, with unique accommodation offered for high quality business opportunities. Maintenance and

improvement schemes will be required to maintain our current performance, with The Atkins Building high on the priority list.

4. **FINANCIAL IMPLICATIONS (DB)**

There are no financial implications arising directly from the report as it is for information.

5. **LEGAL IMPLICATIONS (AB)**

None raised by this report as it is for noting only

6. **CORPORATE PLAN IMPLICATIONS**

Nothing arising directly from this report.

7. **CONSULTATION**

No groups have been consulted in formulating this report.

8. **RISK IMPLICATIONS**

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant Risks		
Risk Description	Mitigating actions	Owner
Prolonged growth within the UK economy fails to materialise, leading to the movement of tenants out of the estate.	Marketing of the units has become more widespread with coverage being given by Prospect Leicester and local agents, helping to attract a broader market.	SC

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

Ensuring services are accessible to all

The Councils commercial property is available throughout the Borough and is marketed by various mediums (from To Let boards through to web based materials) allowing access to the groups that require them.

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications

- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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