

REPORT TO: CABINET

DATE: 12 OCTOBER 2017

TITLE: MANAGEMENT OPTIONS FOR ENTERPRISE ZONE BUILDING

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This is a Key Decision
It is on the Forward Plan as Decision number I007695
Call-in Procedures may apply
This decision will affect Old Harlow Ward.

RECOMMENDED that:

- A** Cabinet approves the development of an in-house management option for the Harlow Council owned 'Nexus' building on the Harlow Science Park.
- B** The marketing of the building is undertaken by the appointed agents for the wider Science Park development.
- C** Cabinet reviews the arrangements after two years of the building being operational.

REASON FOR DECISION

- A** Cabinet has already approved the development of the building and the detailed design of this is now underway. Full planning approval is expected this autumn and construction work is scheduled to start in Quarter 1 of 2018 for completion by the end of that year. A decision now needs to be made as to the management arrangements for the building so that a structure can be put in place prior to the commencement of building works. Cabinet has already agreed that the building will remain in the Council's ownership, to

ensure a revenue stream to the Council, but asked that options be considered for its management.

BACKGROUND

1. The Harlow Science Park will be the flagship development of the Harlow Enterprise Zone, providing space for science and technology companies and bringing many high value jobs to Harlow. It is specifically designed to provide high quality space that will complement the science parks in the Cambridge area and capitalise upon the growth of the science and technology sectors in the London Stansted Cambridge Corridor. A working title for the building of 'Nexus' has been identified to commence the marketing. This has been selected to emphasise the centrality of the building to the wider development, its role in connecting businesses and to provide a science and technology flavour.
2. Discussions with local property agents have identified that there is a shortage of space in the local area for space in the 2,000 to 10,000 square foot range to support small and medium sized businesses. This is notoriously difficult to fund in the commercial market since most funders will only wish to fund developments that are targeted at larger companies with strong covenants on long leases. Almost by definition this excludes the target small and medium sized businesses.
3. Accordingly, a proposal has been developed with Vinci and its professional team to construct a building of approximately 30,000 square feet over three floors that are capable of being subdivided into medium sized business units. This will provide an essential part of the ecosystem that is required for a successful Science Park and a range of spaces for a variety of businesses that can interact with each other. Part of this building will also contain a café and meeting spaces to provide some wider facilities on the site at an early stage in its development, as well as providing a marketing suite for the wider Science Park development.
4. Once fully occupied, it is estimated that the gross rental income of the building will equate to £600,000 per annum. This is based on a conservative rental estimate of £20 per square foot, although the building is being marketed at £22 to £25 per square foot. A cautious approach has been taken to the income projection since even at £20 this will exceed any other office rentals in Harlow. For reference the highest rental value at Kao Park is £18. However, it should be remembered that the Science Park will be a premium product for which there are no direct comparators in the town and that the agents believe that these figures are achievable.
5. In July 2017 Cabinet approved a proposal to complete the design of this building and to procure its construction. It was further agreed that another

report would be presented to Cabinet to provide options for its future management.

ISSUES/PROPOSALS

6. Three options have been presented:
 - a) Management is contracted out via a tender process to a provider of business space to manage on behalf of the Council;
 - b) Management is contracted out via a tender process to a managing agent to provide a property management service; and
 - c) Management of the building is dealt with in-house by Council staff.

Option 1 – Contracted out to a Management Operating Company (MOC)

7. This option could work in a similar way to the Harlow Enterprise Hub which went through a tender process in 2016 to appoint an operator. Under this option an experienced provider of business space would be contracted to manage the building on behalf of the Council. This would happen via the granting of a lease with full operational responsibility transferred to the operator. In exchange for this a guaranteed income stream would be provided to the Council and perhaps a share in any profits over a certain level. Tenants would be sub-tenants of the MOC.
8. The advantages of this option are:
 - a) All risks in terms of void units such as loss of income, responsibility for business rates are transferred to the MOC;
 - b) The Council has a secure, guaranteed income stream; and
 - c) Day to day management and operational pressures are transferred to an experienced operator who would sub-let space to occupiers.
9. The disadvantages of this option are:
 - a) This option has the lowest level of revenue receipt for the Council since it transfers all risk to the operator and they will need to be compensated for that risk;
 - b) It potentially reduces the influence that the Council can have on the building since day to day operational control will have been ceded; and
 - c) It ties the Council into a longer term arrangement since an MOC will

not take on the operating risk without some long term prospects. The Enterprise Hub arrangement is for a five year period with an option to extend for up to a further five years.

10. The financial arrangement for the Harlow Enterprise Hub provides for a guaranteed rental income to the Council of £150,000 per annum plus a profit share, which on the current contract gives an estimated forecast income of £816,300 over a five year period. Without a full commercial tendering exercise it is impossible to predict what a similar outcome might be for the Nexus building, but the expected income would be greater than that of the Enterprise Hub.

Option 2 – Contracted out to a property agent

11. This option would see the Council contract with a commercial property agent who would provide a professional management service to the Council. Occupiers would be tenants of the Council and the agent would receive a percentage of the rental income to cover their services – marketing, lease negotiation, building management & security and all tenant liaisons.
12. The advantages of this option are:
 - a) A greater proportion of the rental income would be transferred to the Council than with Option 1; and
 - b) Day to day management and operational pressures are transferred to the agent.
13. The disadvantages of this option are:
 - a) The Council retains the risk of void units and the liability of business rates on any void units; and
 - b) It potentially reduces the influence that the Council can have on the building since day to day operational control will have been ceded.
14. A typical financial arrangement for this option would be to pay a property agent a fixed percentage of the gross rental income. The Council would also need to make a provision for the potential business rate liabilities on any empty units.

Option 3 – Management in-house

15. The Council could provide a direct management service via its own Property and Facilities team. The Council already manages the Latton Bush Centre and various industrial and retail units (as well as the Civic Centre) and,

although this will be a very different building with a very different tenant mix, the Council already has some in-house expertise in terms of property management. Although the building is larger than the Enterprise Hub, it is specifically designed to meet the needs of medium sized companies with units in the 2,000 – 5,000 square foot range. Therefore, it is likely that there will be a maximum of 12 tenants in the building and possibly fewer if there are occupiers at the higher end of that range. Therefore, it could be considered that the management requirements will be lower than at a building such as the Enterprise Hub which has a higher proportion of much smaller businesses.

16. Under this option the Council would retain 100 percent of rental income, but have to meet its management and operating costs as well as making provision for the risks associated with void units in relation to business rates. This option therefore has the maximum potential financial exposure but it also has the highest potential financial rewards.
17. The advantages of this option are:
 - a) The Council retains all rental income from the property;
 - b) The Council retains full control of what will, in effect, be the marketing suite for the Science Park development; and
 - c) The Council retains the flexibility to appoint a managing agent at some point in the short to medium term if it so desires.
18. The dis-advantages of this option are:
 - a) The Council retains full risk and liability in relation to empty units and in particular the payment of business rates on those units; and
 - b) The Council retains full liability for day to day repairs and maintenance and for dealing with all tenant enquiries.
19. Whichever option was pursued, some of the operational costs of the building would, clearly, be met through an additional service charge to the occupier such as the provision of a reception service, cleaning, security and routine repairs and maintenance. The Council would be responsible for meeting its own management and legal costs as well as marketing and letting. Given that the Council does not have experience of letting office space in the high end market that Nexus is targeting it is recommended that the three property agents that are currently engaged to market the wider Science Park site (Bidwells, Strettons and Derrick Wade Waters) are also engaged to market the Nexus building.
20. Whilst there are inevitably risks associated with managing a building in terms

of potential liabilities, it is considered that the advantages of an in-house option could outweigh these. It will certainly result in the highest potential revenue stream for the Council which was one of the original objectives in undertaking the development. There is confidence amongst the development team in the product that is being produced and there is already interest in the building before construction work has commenced. The market that is being targeted is not a volatile one, as it would be with, for example, business start-ups, and as such there is some mitigation of the risk of void units. This is therefore proposed as the preferred option but with a review after two operating years to assess performance and whether or not any alternative approach should be taken.

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (Includes ICT)

Subject to the decision of the Cabinet work to develop the detailed budget implications will be incorporated in to the Councils normal budget setting processes. Consideration will be given to the longer term repair and maintenance costs, the ongoing management costs, expected income generated from tenancies and the implications for any periods of vacancy in determining the operational budget for the building.

Author: **Simon Freeman, Head of Finance**

Housing

As outlined in the body of the report.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

A robust and statutory compliant service charge model is required and must be managed to ensure that all running costs incurred are lawfully recovered and less amenable to challenge.

Tenants will be required to enter into lease terms prior to occupation obliging Tenants to pay appropriate rent and services charges on demand and giving the Council enforceable remedy in the event of non-payment.

Surveyors appointed to market the property must be appointed pursuant to Contract Standing Orders.

Author: **Brian Keane, Head of Governance**

Background Papers

None.

Glossary of terms/abbreviations used

DCLG – Department for Communities and Local Government

LDO – Local Development Order

OJEU – Official Journal of the European Union

SELEP – South East Local Enterprise Partnership