

# Southwold Enterprise Hub Business Case Review



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## **Introduction**

In December 2020 Southwold Town Council commissioned David Lock Associates Ltd (DLA) to undertake a review of the business case for the Southwold Enterprise Hub at Station Yard, Blyth Road/Station Road, Southwold.

### **Contents of this Review**

Given the short timescale of the commission, our review has been carefully structured around the requirements set out in the project brief and does not include the history and background details for the Station Yard site. These are well documented in the business case developed by Moss King in 2018 as part of a Coastal Communities Fund application and reviewed by them in 2019. (This commission revisits the latest version, referred to as the 2019 Business Plan review version 2.3). The review is presented in four parts as indicated below.

- 1** Understanding the Brief and Key Issues.
- 2** Analysis
- 3** Risk
- 4** Conclusions





## 1. Understanding the brief and key issues

### 1.1 Objective

The objective of the commission as stated in the Town Council's brief is:

To review the business case for the Southwold Enterprise Hub to ensure its viability and the need to adapt the Hub to new ways of working. Southwold Town Council wants firstly, to understand how the impacts of covid-19 and how the resultant changes in work practices might be reflected in the role of the office/workspace going forward. Then, following on from this, the Town Council requires an assessment of how this might affect the Hub proposals and what adaptations need to be made to the existing model to make it a successful, sustainable and a viable place to create enterprise, innovation and talent in the heart of Southwold.

### 1.2 Promoting a legacy economic diversification

In January 2017, Southwold received confirmation from the Department for Communities and Local Government (DCLG) that its bid to become a Coastal Community Team (CCT) had been accepted. As a result, the Southwold Coastal Community Team Economic Plan was produced as a framework for CCT's work and objectives in boosting the local economy.

The Economic Plan recognises that...

Although it is a highly regarded tourist destination and an attractive place both to live and work, Southwold has a number of significant sustainability issues:

- a declining and ageing population, fewer younger people and families
- very high property values and a lack of affordable housing
- high commercial rents and an imminent dramatic increase in business rates (April 2017)
- majority of jobs and local economy dependent on tourism
- majority of housing stock as second homes and holiday lets
- risk to community facilities such as library and school
- risks posed by flooding and coastal erosion to the local environment, estuary and therefore the Harbour.

A number of strategic priorities were developed as a response to these issues, one of which, Priority 7 is to *Diversify the local economy*. The development of the Enterprise Hub was identified as one of the initiatives to take forward under this priority.

A planning application for the 'Southwold Enterprise Hub' on the Station Yard site at the Blyth Road/ Station Road junction was submitted by Southwold Town Council and received planning approval in June 2018. (A site location plan is included at Appendix 1).

The business case which had been worked up for the CCF application was subsequently revised in 2019 with the clear preferred option being the development of the Hub. The original proposals were subsequently reconsidered by Southwold Town Council in early 2020, with high level sketches for an alternative scheme that replaced the residential element with B1 office space. The café was replaced with a multi-function meeting room and more flexible office/workshop spaces. It was recognised that the amended scheme may require a change of use.

As set out in the objective above, a review of the business case is now required to ensure that any proposals taken forward reflect the changing economic circumstances and are sustainable.



## 2. Analysis

The sections of the 2019 Business Case review requiring specific review are as follows:

Section 3:	The Need
Section 5:	The Proposal
Section 8:	Financial Appraisal
Section 13:	Monitoring and Evaluation

### 2.1 Section 3 - Need

A detailed knowledge and understanding of the changing economic circumstances and the effects on the property market post-COVID is critical to confirming the deliverability of the Enterprise Hub. DLA recognises that viability is an integral part of the process with the need to ensure a robust and market evidenced set of proposals. DLA has accessed varied sources of economic and market data to interrogate the validity of the current assumptions with regard to need in the business case.

However, this is more than just a desktop research exercise and therefore, in addition to accessing market data we have sought the views of agents/operators active in the local market helping to build a picture of:

- space/facilities/services required,
- the likely levels of user demand for Hub facilities and
- levels of rents/service charges.

#### 2.1.1 Suffolk Business Profile

Data on business counts in Suffolk is collated by the Suffolk Observatory reproduced from the government Inter-departmental Business Register (IDBR). The information below is a record of businesses as at 10 March 2018.



It can be seen from the graphic that pre pandemic there was a small upward trend in business formations.

For Suffolk in terms of occupation types, the highest proportion of people (18.8%) work in professional occupations with a further 13.1% employed as managers, directors and senior officials. People in these categories are often viewed as entrepreneurial. This represents a healthy population pool from which to draw starters of higher value businesses. This is without considering those who may be drawn to the area from London and the surrounding area post-pandemic.

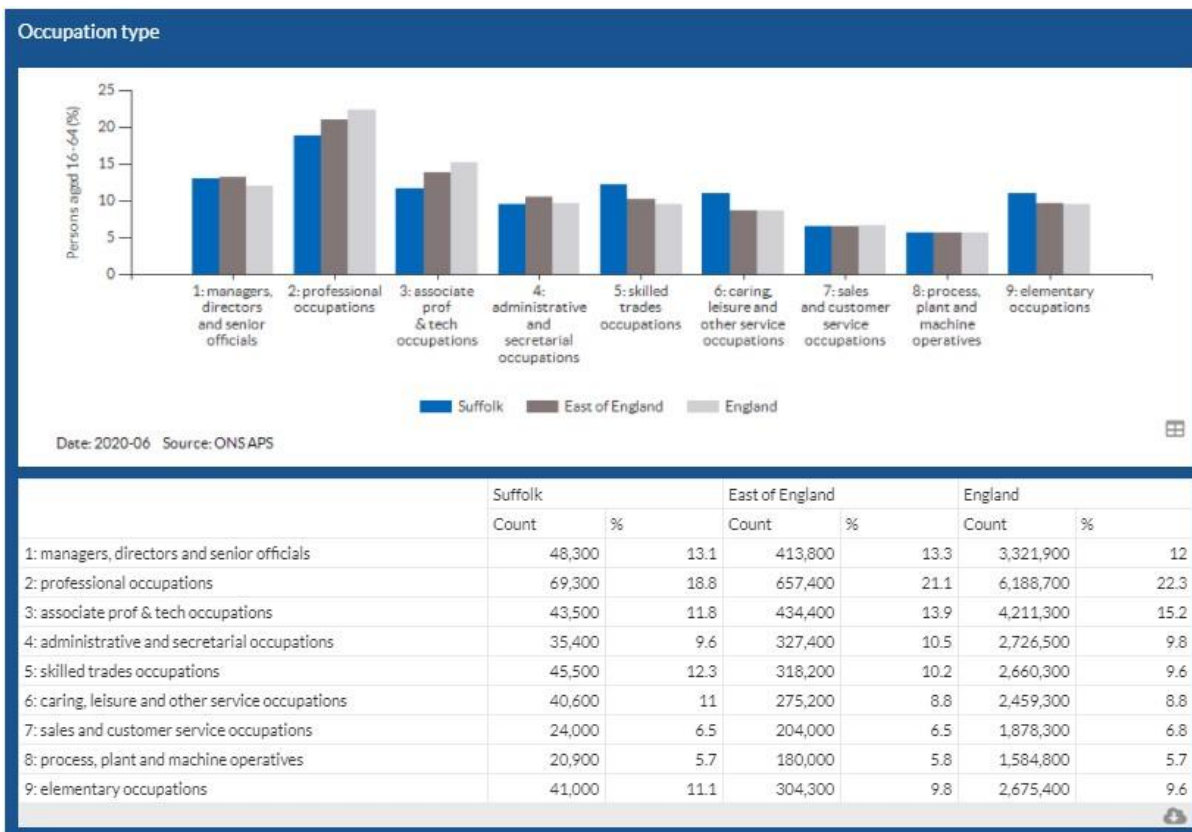


Figure 1: Occupation type

In terms of businesses by employment size, Suffolk has a higher proportion of small businesses (10-49 staff) but a lower proportion of micro businesses (0-9 staff) than in the East of England and England.

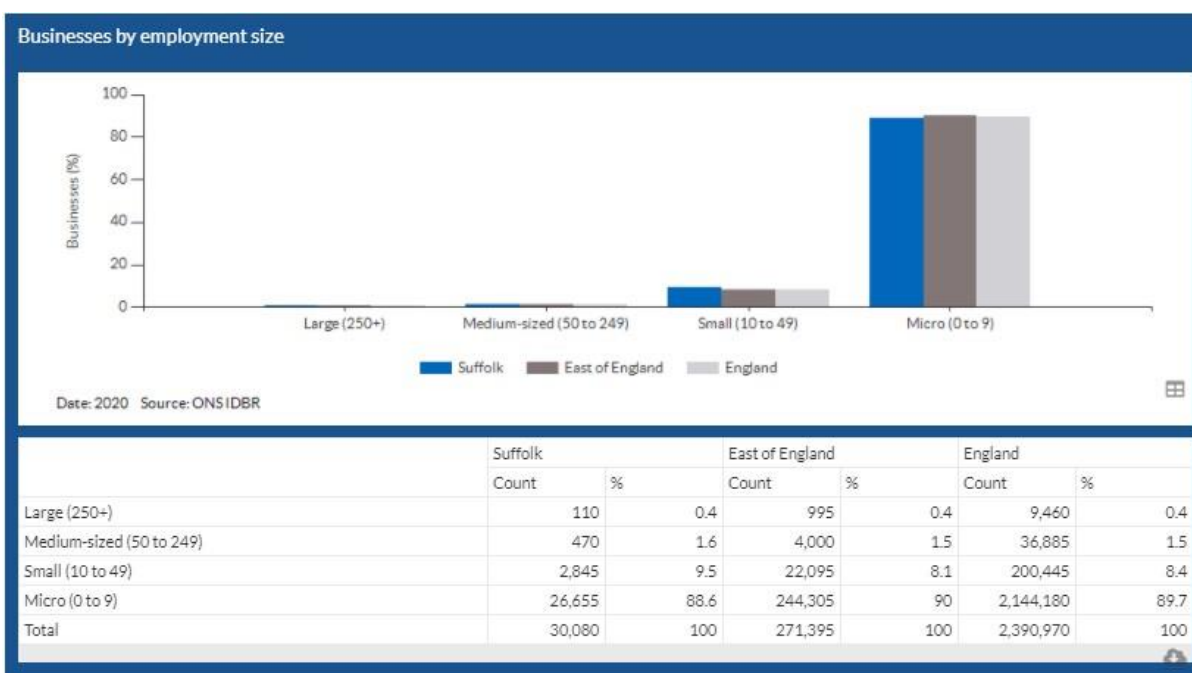


Figure 2: Businesses by employment size

The data for business survival rates is encouraging, with Suffolk performing better in this respect compared to survival rates in the East of England and England.



Figure 3: Business survival rates

The data available for Southwold is based on the 2011 census data for Southwold and Reydon and is, therefore, somewhat historic. The population of Southwold has declined sharply in the 10-year period since and the data is presented to provide a flavour of the business profile of Southwold and Reydon in comparison with the wider area.

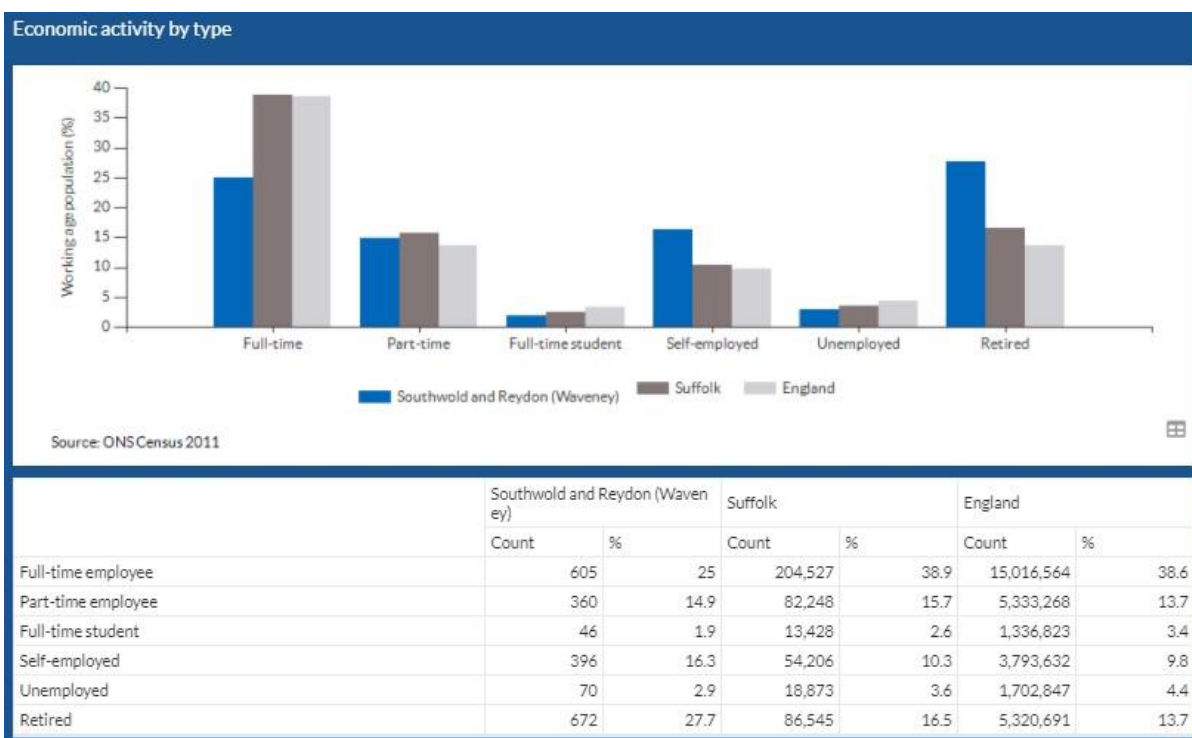


Figure 4: Economic activity by type

As indicated in the Business Plan the highest proportion of residents were retired, a much higher proportion than in the county and in England as a whole. However, there was also a high proportion in the groups of managers, directors and senior officials and professionals.

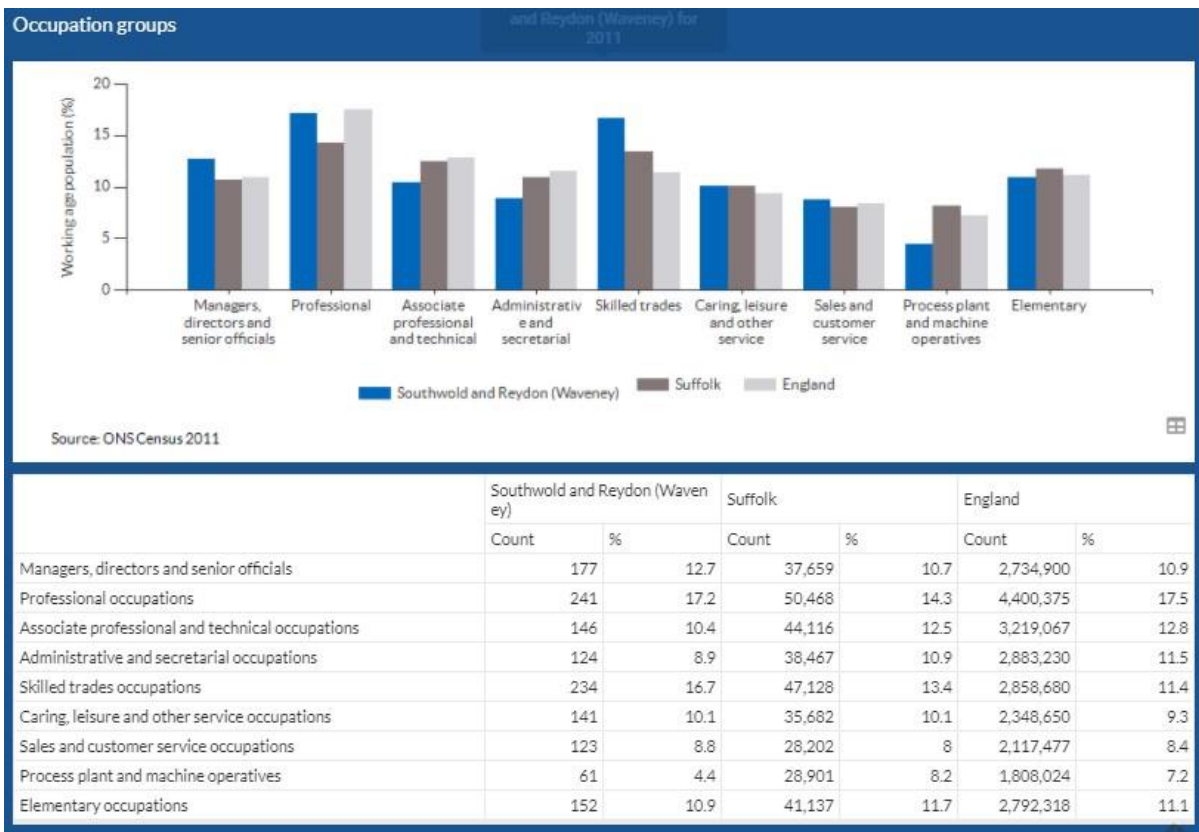


Figure 5: Occupation groups

This demonstrates that the nature and mix of employment types in the surrounding area supports the case for an Enterprise Hub as the demographic profile indicates entrepreneurial strength. However, the specific demographics for Southwold are such that in isolation of demand from a wider area, the population is unlikely to support such a facility alone/ It will therefore need to draw on demand from a wider area.

## 2.1.2 The local market

Serviced office centres represent a different offer from those offices let on a traditional tenancy where the rental is usually agreed over a longer term and is quoted on a pure £ per square foot basis. As part of the review we have therefore, concentrated on comparable or competing serviced facilities in local area. Many of these do not quote on a rate per square foot or metre basis as occupation is not charged in this way. Where such rates are available they have been provided.

Name	Location	Description	Services	Terms
Suffolk Enterprise Centre	Felaw Maltings, Ipswich	Converted maltings building. Centre run by NWES offering flexible workspace	On-site business lounge, fully-managed reception, facilities management, coworking space, conference and meeting facilities, which tenants can use of for up to eight hours per month at no cost under the terms of their tenancy agreement. Virtual offices.	£31 sq ft for offices Virtual office packages (see below) £39 - £79 Business Club £25 pcm
Leiston Enterprise Centre	Eastlands Industrial Estate, Leiston	Purpose built Enterprise centre run by NWES offering flexible workspace	Variety of offices and light-industrial units available on 'easy-in, easy-out' tenancy terms. Free onsite parking, shared facilities, flexible, functional conference room, Fully managed workspace and Virtual offices.	£23 sq ft Virtual Office packages as above, offices £375 pp/month (as advertised by Office Freedom)

Beacon Innovation Centre	Beacon Park, Gorleston-on-Sea	Purpose built Innovation Centre, and Oil and Gas hub, but accommodates a wider range of businesses	Flexible office space ideal for start-up and high-growth businesses, targeting the offshore power sector. Fully managed reception, 24hr access, free unallocated parking, security, VoIP telephone systems with unlimited broadband. Fully equipped, 20 seat boardroom, virtual offices.	£32.64-£33.66 sq ft (Rates inclusive) Virtual office packages as above.
Riverside Business Centre, Lowestoft	Riverside Road, Lowestoft	Purpose built Business centre	38 office units, ranging in size from 155 sq ft to 385 sq ft, each with 'plug and go' connectivity. Easy-in, easy-out tenancies, free access to business advice, training, and finance sources via the NWES Business Advisor network. Reception, customer service, post handling. Fully equipped conference room. Ample free onsite parking and shared facilities. Flexible, fully managed workspace and Virtual offices.	£28.70 sq ft Virtual office packages as above. £25 pcm business club.
Framlingham Technology Centre	Station Road, Framlingham	Purpose built business centre	Range of offices to rent, virtual tenancies, meeting rooms, shared facilities, reception services, on site car parking	Single person office from £325 pcm Hot Desk £30 per day £7.50 per hour Virtual Office from £35 pcm
Orbis Energy	Wilde Street, Lowestoft	Purpose Built Offshore renewables business centre	35,500 sq ft, five-storey building provides office accommodation, meeting rooms and conference facilities, with reception, business support, access to finance and some on site car parking.  NB not all tenants related to off shore energy industry.	Meeting rooms £90/4 hours, £150 per day. Virtual offices same package as NWES properties (£9/£709 pcm)
Basepoint, Ransomes Europark	The Havens, Ipswich	3 storey building with 63 offices from 50 – 1,360 sq ft and workshops from 500 -750 sq ft	On site team/ reception Fully serviced Break out space Meeting Rooms	Flexible licences e.g. from £315 pcm (£75.6 per sq ft.) 50–500 sq. ft from From £60 per month pp/m Virtual space from £52 per month
Franciscan House (Regus)	Princes Street, Ipswich	3 <sup>rd</sup> and 4 <sup>th</sup> floors of town centre office block 77 private offices 16 coworking desks 2 meeting rooms	Reception, flexible, fully equipped spaces, including breakout areas, conference rooms and a video conferencing studio.	Office Space From £180 to £225 pp/m Coworking From £150 pp/m Virtual Offices From £65 pcm Meeting Rooms From £39 per hour
St Margarets Green	Ipswich	Grade II listed office building with suites accommodating between 1 to 15 people. Office sizes 65 - 3,250 sq. ft	Reception, access to meeting rooms and support services	From £110 pp/m for a fully inclusive furnished office space. Rents from £1,320 pa (£20.31 sq ft pa).
Innovation Centre (Oxford Innovation)	Knowledge Gateway, Boundary Road, Colchester	3 storey building on University Campus. Offices for 1-30 people	Fully serviced offices, co-working, mentoring, on site cafe	Offices 208 – 569 sq ft £4,500.- £25,608 per annum. Desk from £10 per day, longer term co-working £125 pcm or dedicated desk in shared office £200 pcm

EPI Centre Haverhill (Oxford Innovation)	Haverhill Research Park, Withersfield	30,000 sq ft four-storey 60+ offices from 175-750 sq ft	Fully serviced offices, mentoring,	Offices from £600 pcm
Norwich Research Park	Centrum, Colney Lane, Norwich	Large Park accommodating over 115 businesses with lab space accelerator space , offices from 170 -1940 sq ft	Fully serviced flexible terms, shared reception space, meeting spaces, on-site parking and business support	Accelerator offices from £210 pcm
UAE Enterprise Centre	University of East Anglia Norwich Research Park Norwich	Passivhaus building on University Campus 42 hot desk spaces 7 office suites	Fully serviced flexible terms, shared reception space, meeting spaces, on-site parking and business support	Co-working desks £175 pcm Office suites from £551 to £1,650 pcm Range of virtual tenancy options
Hethel Engineering Centre	Chapman Way, Hethel, Norwich	Modern building extended in 2014 Offices 300 1200 sq ft Workshops 900 - 1300 sq ft 70 desk spaces	Fully serviced offices geared towards high performance engineering and manufacturing companies with Business support, Furniture, meeting rooms, parking, video conferencing, virtual offices.	Desks from £7 per day Meeting Rooms from £10 per hour Offices £850 pcm

Table 1: Innovation centre/serviced office facilities in the local area

The information collated in the Table 1 shows a broad range of values and packages available throughout the region for managed workspace. The Basepoint rent/sq ft quoted at the Havens in Ipswich appears high but this is for one of the smallest units. The type of facility varies widely from the size of the facility, age and whether it is sector specific. In our view the centres run by Oxford Innovation and those in Norwich, being of a more scientific nature and on a larger scale, are not directly comparable to that which is being proposed at Southwold. However, the Hub can play an important role as part of the accommodation supply chain which feeds into the larger facilities in the region.

Virtual office packages offered by NWES are as follows:

**From £39**  
Month + VAT

**Inkub8: Our standard Virtual Office package**

**For your start-up business**

- Professional postal address for your business
- Secure and efficient mail handling service
- Access to a wide range of business support and finance
- Promotion of your business on our group website
- Local networking events and business seminars
- Complimentary access to our professional business lounges

[SELECT PACKAGE](#)

**From £79**  
Month + VAT

**Inkub8+ Our enhanced Virtual Office package**

**For your growing business**

Includes all the benefits of our standard package, plus

- Your own local business phone number
- Professional phone answering service
- Call forwarding and message taking (call charges apply)
- 20% discount on meeting and conference room hire

[SELECT PACKAGE](#)

### Pipeline development

The SouthGen Community Hub is a part of a proposed mixed used development on the old hospital site in Southwold. The hub will comprise a library, café and nursery and a co working space. The co-working space will have up to 30 desks (as confirmed on SouthGen website), superfast broadband and two conference rooms. The space will be aimed at micro businesses and self-employed people. It is programmed to open in 2022, so pricing is not currently available. The co-working space being developed at SouthGen is considered to be complementary to rather than in competition with the proposed Enterprise Hub. In the medium term it is expected to act as a feeder for the Hub as micro businesses seek to grow and become more established.



### 2.1.3 Comparable facilities further afield

In order to gain a full understanding of similar markets in rural locations, particularly those in tourist locations affected by a seasonal market, we have researched managed workspace facilities in Devon, Cornwall and rural Yorkshire. The information gathered indicates rental values averaging circa £40 per sq. ft inclusive of service charges. The data compiled is included at Appendix 2.

### 2.1.4 Discussions with local operators

The opinions of local operators NWES and Menta were consulted during the preparation of the original business case. In order to ensure this review is as robust as possible, we sought their views again to ascertain whether these views had changed as a result of the pandemic.

A questionnaire was prepared and the full responses from both operators are included at Appendix 3 and summarised below.

#### 1. NWES – Key points

- Southwold a good location and there is evidence of demand based on other centres
- Target market is unclear given Southwold demographic – opportunity to be a catalyst for more year-round activity
- 1-3 person units likely to be most popular with limited co working space.
- Co-working space at SouthGen could act as a “feeder” for this site
- The Hub is below the ideal size (due to the impact shared services have on costs).
- Kitchen/welfare facilities should be communal, to encourage tenant interaction.
- Easy in/easy out terms recommended with fully inclusive rents .
- Rents circa £26 per square foot plus could be achieved.

#### 2. Menta – Key points

- Location is great opportunity to establish a centre which can not only benefit but become an integral part of the community. Believes there is latent demand which a centre in Southwold could satisfy.
- Serviced space in this location would undoubtedly benefit from linkages with the energy sector but should not be branded as sector specific. Cross fertilisation of business is key to encouraging endemic growth e.g., service-based activity can support other businesses.
- The centre will need a strong identifiable brand – it should have a contemporary feel whilst respecting the location.
- Community links should be encouraged with the opportunity for the community to use the building out of hours for meetings, social events etc.

### 2.1.5 Discussions with Local Agents

We have spoken with a number of local agents regarding the market for business space in and around Southwold. The key points from these discussions are summarized below:

#### Steel & Co, Lowestoft

- The general demand for small individual offices has fallen with people working from home – likely to be a structural change.
- Demand for serviced offices, co-working space and “Hub” type space is not so badly affected, but it has to offer more than just floorspace i.e., add-on services
- Southwold is considered a good location because of the “Southwold effect” – kudos associated with the location. However, it is more likely to appeal to a customer base from further afield, particularly London/M25 direction, and will need to be marketed to secure this. (Much more suited to this than the traditional East Anglian Market).
- Danger of selling too cheap – the types of occupiers who will want a Southwold address will not want something “cheap” – target towards £300 per person per month end rather than the £150 per person per month end. Clientele expected to be willing to pay extra for services.

- Southwold attracts a lot of media/arts industry people – working from home under COVID-19 more likely to enable such people to want to work locally for at least part of each month.
- In terms of the wider market the biggest growth area is in Energy – wind farm/Sizewell etc. expected to generate a huge supply of technical experts to the area. If space is specifically targeted at the cluster, then strong demand is anticipated as the experts want to co-locate, and there is limited space available to do this elsewhere.
- Ensure electricity charging points are available to users of the parking
- A fully serviced flexible hub will have more chance of success than just small office spaces – must be “walk in and work” ready.

#### Roche Chartered Surveyors, Norwich

Identifying demand for Southwold is tricky as there is no empirical evidence of take up to inform the view. Southwold has very little supply and currently nothing similar to the proposed Enterprise Hub. However, with more people working from home because of COVID-19 lockdowns, and the recognition that there is now no need to be based in a dedicated head office location full time, it is anticipated that there will be greater demand for office space outside but close to home (or holiday homes) in the future. This is being seen in Norwich and will continue to be driven by:

- Desire to reduce travelling to bigger cities
- Ability to spend more time with family in a better environment
- Wanting to maintain a separation of work from home, but retain proximity – a better (and sometimes more peaceful) option than the back bedroom
- Aspirations to develop more regular/permanent working base away from the main business location
- Second homeowners opting to spend more time away from cities

The level of demand for space in Southwold is impossible to quantify, however there is confidence that an Enterprise Hub in Southwold will fill up and will not be hugely price sensitive as it is a desirable location with cachet.

Occupiers will want all-inclusive pricing, with easy in/easy out terms, not the commitment of termed leases. In terms of rent, Norwich secures circa £25 per sq. ft. for all-in accommodation and £25-£30 feels realistic for Southwold. If valuing such a facility for the commercial open market, it is best to assume an ongoing amount of churn, assuming a maximum occupancy at any one time of 80-85%. In terms of yield, the centre might attract 8-9%, possibly a little better, once it is demonstrated to be successful, and depending on the availability of other investments.

In terms of design, the space needs to be exciting – it needs to overcome the perception that Southwold is a place only for older people.

#### Fenn Wright, Ipswich – John Birchall

- Southwold is a unique location that attracts higher values than the surrounding area, but does not currently appear to have a defined office market, as there is so little supply
- Not comparable with Ipswich, Norwich or even Lowestoft
- High second home ownership and impact of COVID 19 pandemic on working patterns likely to lead to positive local demand for flexible office space
- Unlikely to be particularly price sensitive in Southwold
- Only comparable location is Aldeburgh, which similarly is not currently known for offices.

#### Fennel Chartered Surveyors, Halesworth – Jonathan Fennel

- Approach to charges by the month was much more appropriate than charging by the square foot. £350 per month for a one-person office and £150 for a desk/£15 per day for hot desking were did not seem unreasonable.

- Agreed more people likely to be living permanently in Southwold as a result to of Covid, and that this could generate demand from those who want the flexibility to work locally (outside as well as inside their homes).
- Concern that demand could still be seasonal, with a much stronger demand in the summer than the winter.,
- Wider community use and linkages with larger local businesses (e.g., for training, off site meetings, events etc) could be valuable.
- Space needs to be flexible and to be “good space” to attract the Londoners who use Southwold as a second base.
- Concern about location as Southwold is not on the transport network and is a “dead end”.
- The fixed costs to the operator pose a risk and that there is a need for a fall-back position.
- Ability to convert some of the space to workshops would help mitigate risk, as these are apparently in high demand. Suggested rents for makers’ space workshops would be circa 510% of their estimated turnover which could be in the order of £80,000 pa – thereby yielding rents of around £5,000 - £6,000 per annum. (This approach is not based on a specific unit size.)
- Important that the design does not prohibit conversion to residential use in the event of any future failure of the centre, as this would provide a core residual value, and underpin the Council’s financial position.
- Good location for a convenience store, or a specialist trader who people “seek out” (like fishing tackle) or a hairdresser.
- Existing supply - upper floors, which typically in other locations provide a source of affordable local office space, are not available in Southwold as financially more beneficial to convert to residential use. There is office space available in Saxmundham on cheap rents of circa £12 per square foot, but it is not fully inclusive, and not on such flexible terms as a monthly rent.
- Retains some scepticism about the overall Business Hub proposal but is more supportive of an approach being adopted to assess the income generating potential through affordable charges, rather than a rent per square foot basis and supports a more flexible approach to design. Also acknowledged that COVID 19 has changed the profile of how people will work in the future.

Other agents contacted did not respond within the timeframe available for consultation i.e. Penn Commercial; Colby Commercial and East Commercial.

### 2.1.6 SWOT Analysis

Strengths	Weaknesses
Southwold is desirable	Local demographics - ageing population with growing number beyond usual working age
Little competition of quality locally available	Very low permanent resident population - risk of becoming unsustainable

COVID 19 changing attitudes to working location	Not on major transport route or rail network
Good site	
Nearby car parking	
Local growing Energy cluster	
Potential to link to local community/businesses	
<b>Opportunities</b>	<b>Threats</b>
A different reason to promote Southwold Locally	Locally high house prices continue to present a barrier to retention of future generations, despite opportunity
Opportunity to develop stronger economic links with Leiston/Sizewell and the local power related cluster/ education and health organisations	Other cheaper and better connected competition coming forward in the region
Opportunity for local sponsorship and use of facilities such as meeting space by local businesses	Use of space by existing businesses who do not diversify Southwold's economic base
Prospect of long term income generation	COVID 19 reducing some demand for individual offices where these can be accommodated at home
Initiates a year round market	
Initiates an environment to retain and develop innovation and knowledge skills in Southwold	
Potential for pool of second home professionals to work in Southwold longer term	
Potential synergy with other developments in Southwold -e.g. Hospital, possibly Police Station depending on acquisition and use	

Figure 6: SWOT Southwold Enterprise Hub

### 2.1.7 Implications for Post-COVID 19 office working

Much has been written about the flight from offices and the new home working revolution brought about by the onset of the pandemic in the spring of 2020. A relaxation of rules in the summer enabling a diluted return to office working gave some insight into new ways of working. Many of the measures introduced reflect the current circumstances where controlling transmission of the virus is the prime objective. Longer term, it is important to consider which design solutions are sensible and appropriate to adopt on a more permanent basis and also how attitudes to remote working may affect demand for different types of office space in future. i.e., in a post pandemic world.

#### 1. Design

Post-pandemic, social distancing and strict cleaning regimes are unlikely to persist, but environments with the ability to re-adopt such measures quickly with a minimum amount of reorganisation or intervention will benefit as scientists tell us to expect new viruses in future.

Workers desire comfortable settings which also support performance, but the attributes that make these spaces desirable, softer furnishings; lush materials; crafted finishes; might engender safety concerns. Environments can, however, be future-proofed with the use of adaptable furniture, careful selection of finish materials which are easy to sanitise and antimicrobial, and 21st-century appliances and technology that limit touch and make office spaces more efficient.

**Furniture:** Lightweight and flexible furniture that is easy to move, reconfigure, and sanitise will help ensure workers are safe and will provide the flexibility to change layouts when needed. Additionally, the use of microfibre couches and chairs means all surfaces can be wiped clean and thus exhibit more durability in general.

**Appliances:** Kitchens and WCs/showers need to incorporate innovation. For instance, where space allows and user numbers are high; instead of one communal refrigerator or dishwasher being shared and becoming a hotspot for viruses; multiple refrigerator and dishwasher draws

could be installed and designated for different units. This approach may not be suitable for the Southwold Enterprise Hub as it is too small to accommodate multiple appliances, which would also represent an additional cost.

Finishes: Some finishes are much easier and cheaper to clean than other surfaces. In addition to microfiber, there are self-cleaning surfaces available. Self-cleaning surfaces are a class of materials with the inherent ability to remove any debris or bacteria from their surfaces in a variety of ways for use on high traffic touchpoints like lift/call buttons and door handles.

Technology: Technology will drive buildings and offices to be worker-friendly and safe. New technology options include:

- Motion lights and motion sensors when entering a room or turning on taps
- Doors that open automatically with motion sensors or facial recognition
- Lifts and audio visual (AV) systems that can be ordered and controlled from a smartphone.
- Air change or fresh air ventilation systems

Meeting Rooms: Many workers will embrace more flexible working and more businesses will allow or even expect more employees to work from home. Large meeting spaces will not be required as often and two people working in a smaller meeting room (while still keeping a social distance) can still communicate with those who are working from home. Good AV facilities are therefore a must have.

Circulation: Circulation space should be designed with options for introducing one-way systems, unassigned seating and dedensification. Appropriate attractive signage.

Collaboration: Whilst working from home has undoubtedly brought many positives for a lot of people, the benefits from being in close proximity have been lost, like greater connection between colleagues/clients, creativity, innovation, and training/learning opportunities. Welfare/breakout areas can be designed to include collaborative space for informal meetings using tables and chairs or sofa seating and bench desks but also quiet pods if required

## 2. Changes in attitude

Many commentators on the office market and surveys of businesses suggest that post-COVID many organisations will adopt some form of hybrid working for years to come. A survey of 2,000 office workers nationwide, conducted in the autumn 2020 by the British Council for Offices, suggests that the UK is set to move to a mixed style of working. Whilst a return to the office was welcomed, almost half of the respondents (46%) said that they intended to split their time between the office and home.<sup>1</sup>

One of the major changes to remote working has been a dispersed workforce and the difficulty of maintaining a company culture and management strategy. Nick LiVigne writing in Personnel Today cited *'line-of-sight'* management as the biggest barrier to alternative workplace strategies. He goes on to say that *'the acceptance of new outcome-based management styles and teamwork is the real catalyst for fundamental office changes, not employees preferring working from home'*.

What might this mean for serviced offices? There could be a reduced demand for space from micro businesses as people may decide that they can work effectively from home and do not need to pay for office space. Conversely, other small businesses may have set up or expanded in lockdown and need extra space/support to operate more effectively. There is also much anecdotal evidence of homeworking fatigue, especially where workers do not have dedicated workspace. This highlights a demand for a clear separation of work from home.

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Looking at the wider business community, there are likely to be three alternative locations for work HQ, home or/and a third place, recognised as the new hybrid office. It is predicted that HQ/Regional offices will become smaller with satellite offices moving to flexible space providers. Business centres and

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<sup>1</sup> [BCO - Majority of workers plan a return to the office, but home working here to stay](#)

enterprise hubs offering serviced facilities should be well positioned to meet this new demand. Some companies who downsize may even give more senior workers a budget to secure space at a local serviced office centre for partial remote working.

## **2.2. Section 5 - The proposed development**

As highlighted earlier, following the 2019 Business Case review, the proposals for the Hub were reconfigured to increase the number of office units, eliminate a café and housing, and reduce the retail space to one convenience store. The sketch redesigns were not however progressed as a result of the COVID pandemic and then pending the outcome of this review.

The information gathered above has provided the basis for the consideration of the current validity and sustainability of the Enterprise Hub proposals. In order to provide recommendations on the likely form, nature, quantum and timing of user demand and the corresponding facilities needed, in this section we consider in more detail the impact of our findings on the proposed business model for the Enterprise Hub and the design of the buildings.

### **2.2.1 Target market**

The 2019 Business Case review states that the project aims to support start-up businesses in Southwold, businesses that wish to expand, and, importantly, those from outside the area that want to relocate to the town or develop additional services within the town and that these will predominantly be micro-businesses with 1-9 staff.

The Suffolk business profile supports this aim, with data showing that the area has a higher proportion of smaller businesses with good survival rates. In addition, over 30% of workers are in the professional and managerial categories regarded as entrepreneurial and likely to start higher value businesses.

Our discussions with local agents and operators have also confirmed that they believe there is a latent demand in the area for serviced premises for small businesses for both physical and virtual tenants. Grow on space is seen as particularly important. Flexibility is key with all consultees agreeing the need for easy-in/easy-out terms and spaces that are multifunctional and adaptable to meet occupier demand and any growth aspirations. The majority of demand in the initial phase is expected to come from 1 and 2 person businesses. As these grow so will the demand for larger workspaces.

### **2.2.2 Key beneficiaries**

The key beneficiaries outlined in the 2019 review still remain valid and relevant.

### **2.2.3 Design**

The 2019 Business Case proposed changes to the original design which was granted planning permission in January 2019 i.e., the retention of only one retail unit on the corner of Station Road /Blyth Road in Building 1 and the replacement of the café and residential units in Building 2 with additional office space.

Since this time, the convenience store has closed. However, public consultation clearly showed a desire for a replacement shop in any new development on the site. Our work has therefore considered the retention of a retail unit in Building 1 with Building 2 for business occupation only and compared this to a fully commercial scheme.

The previous design suggests the Hub could comprise 15 units ranging in size from 14 m<sup>2</sup> (2 person) to 107m<sup>2</sup>. However, our analysis suggests the need for more flexible space that can accommodate one person workspaces through to areas that could be combined to accommodate up to 15 people or arranged as offices for 2 – 10 depending on demand. This can be achieved via the use of lightweight furniture and removable partitioning.

In addition to maximise the ability to accommodate a range of different user types, we suggest the inclusion of communal breakout spaces with shared kitchen and welfare facilities which can be used for

collaborative working, informal meetings and networking events. These spaces and the larger meeting rooms will have the ability to meet the needs of the wider community for events. The proposed flexibility of the offer at the Hub will enable it to complement the SouthGen proposals and ensure that additional capacity is available for co-working space/hot desking should demand arise.

One of requirements of this review was to consider any recommendations with regard to the impact of COVID-19 on design. We have stated above that flexibility is the key; to allow areas to be reconfigured as required and to respect social distancing. Items which we believe need to be considered at the design stage include:

- Natural ventilation
- Wipeable surfaces/ antibacterial materials
- Accessible outdoor areas
- Lightweight but durable furniture (folding or demountable where possible)
- Removable partitioning
- Streamlined designs for shared areas including kitchens and washrooms to facilitate cleaning
- Motion sensors

Clearly any design modifications will need to be proportionate to the budget and size of the facility. However, a simple fit out e.g., limiting carpets to office areas and excluding suspended ceilings in common parts to give a modern industrial feel would help to balance costs. Additionally, the ability to change the uses of rooms to meet tenant demand e.g., as workshop space, would need to be considered at the design stage. The issue of workshop space is revisited later in this report.

Ideally the design should accommodate a covered linkage between the two buildings if possible.

In order to further inform the design/operation of the Hub, we have undertaken an analysis of services offered and facilities provided at other similar types of centre. The information is summarised in the tables below.

<b>Services and basis of occupation</b>		
<b>Essentials</b>	<b>Highly desirables</b>	<b>Nice to have</b>
Fully Inclusive costs, except for extras such as printing, meeting rooms etc Flexible easy in/out terms, not long leases unless required by tenant Networking events Community links Business support	Club membership  Free Coffee/tea	

<b>Facilities</b>		
<b>Essentials</b>	<b>Highly Desirables</b>	<b>Nice to have</b>
Superfast broadband Fully equipped Meeting room(s)	Client waiting space Customer car parking	Vending machines On site Car parking

Staffed reception Break out space  Mixture of accommodation: Desks Hot Desks Co-working Small /flexible offices Outdoor space Modern feel and design Kitchen / WCs (Shared) Printing/copying/ scanning, ideally networked Furniture Telephones Cycle parking Secure access Carpeting	Some personal storage (lockers)   Built in device charging points Showers Cleaning Waste disposal Fully catered meetings  Access to good local catering	Fun stuff like table tennis tables, TV, Bar   Flip charts Pens and meeting stationery Gym
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Table 2 & 3 Analysis of services and facilities provided at comparable sites

### 2.2.4 Layout

Whilst it was not a requirement of this commission to provide amended floorplans, we felt it would be helpful to do so to underpin the robustness of our assessment of operational needs and income generation. Our indicative plans are provided below for both a shop and non-shop scheme. The overall scheme is similar in size to the original proposal.

#### Layout Plans with shop

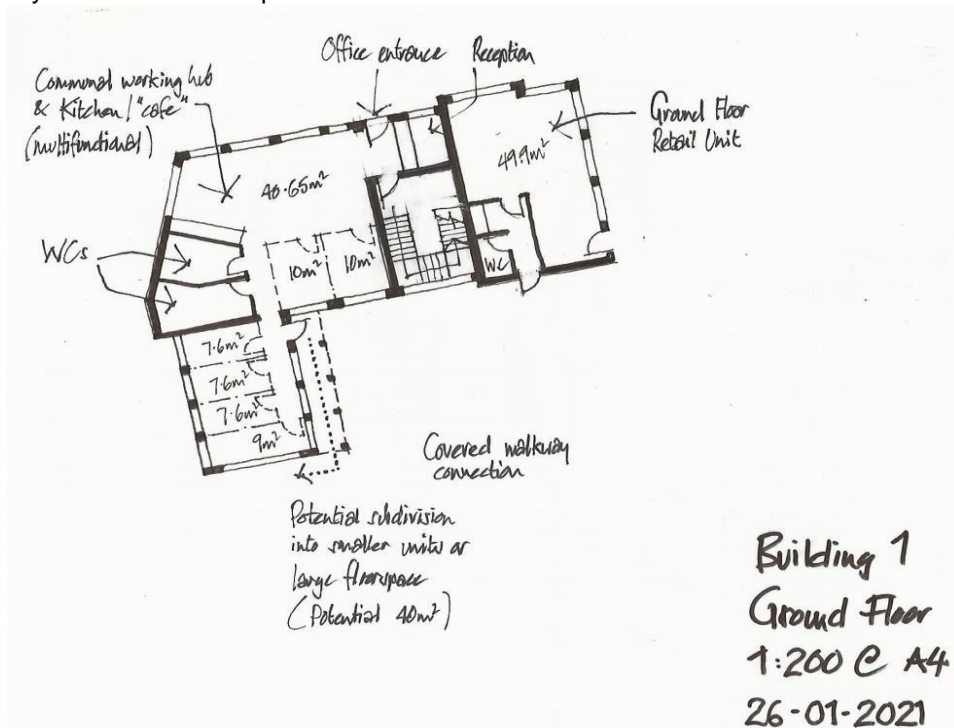


Figure 7



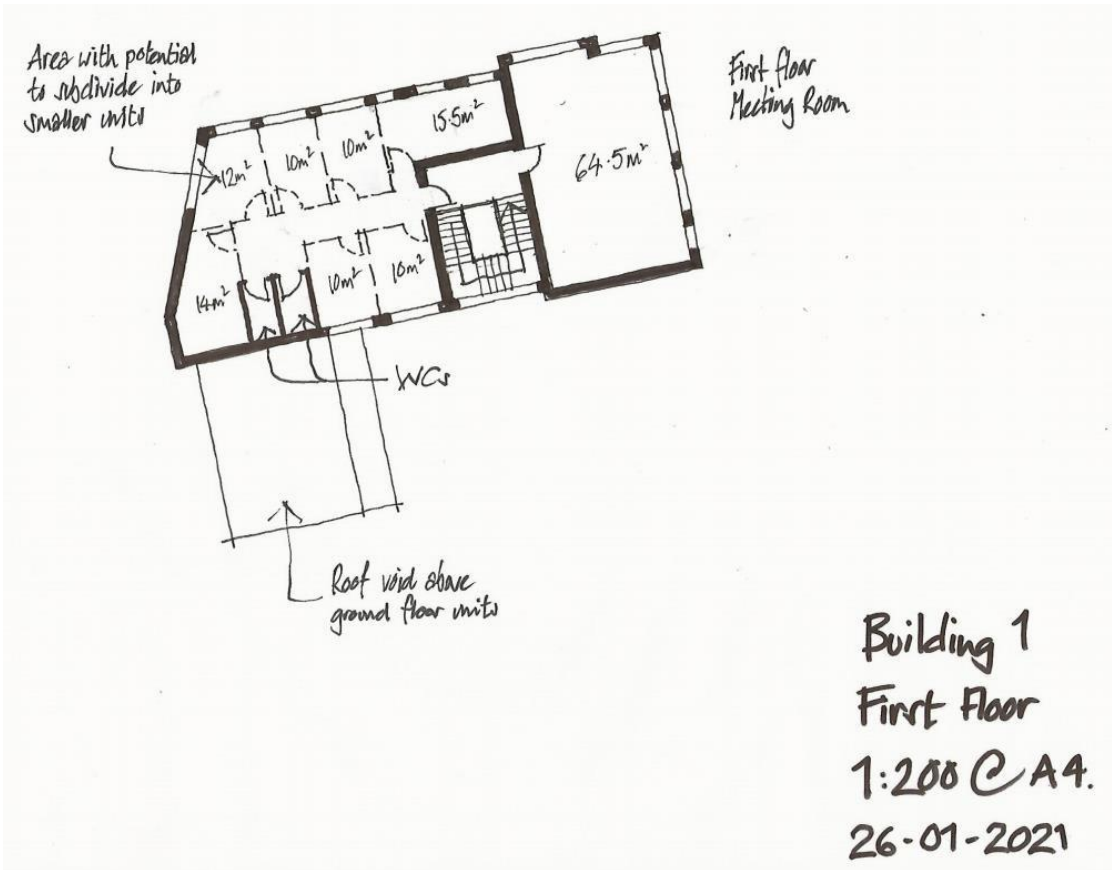


Figure 8

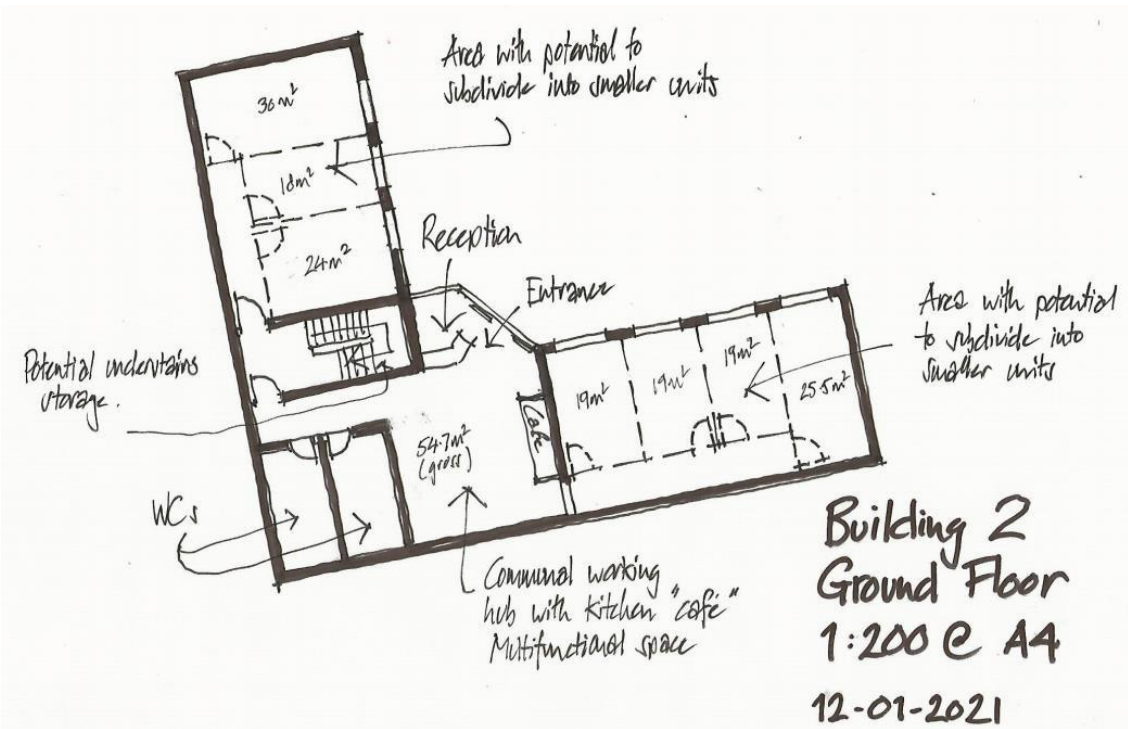


Figure 9

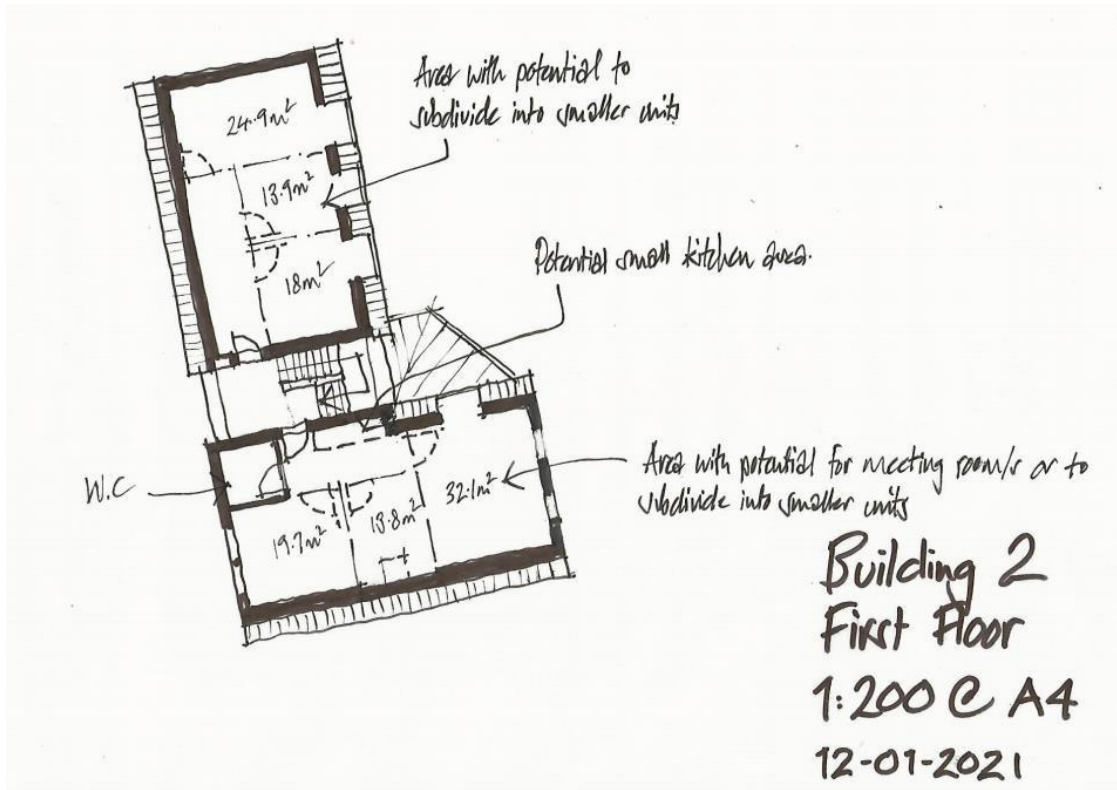


Figure 10

Layout Plans without shop

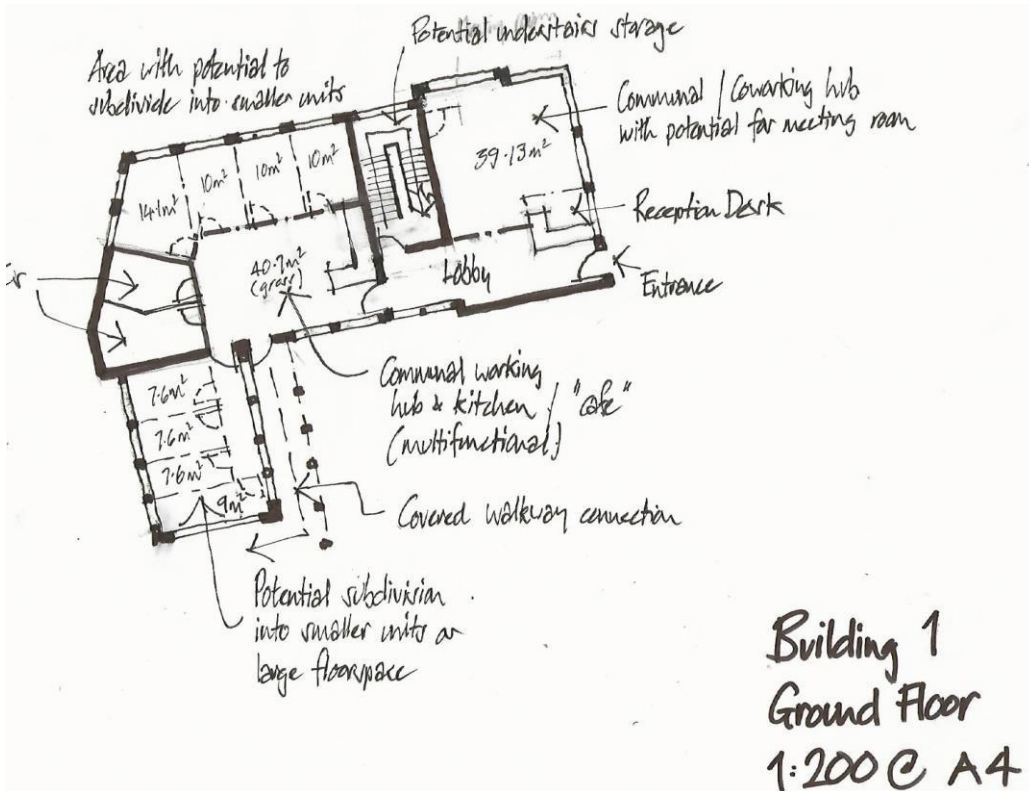


Figure 11

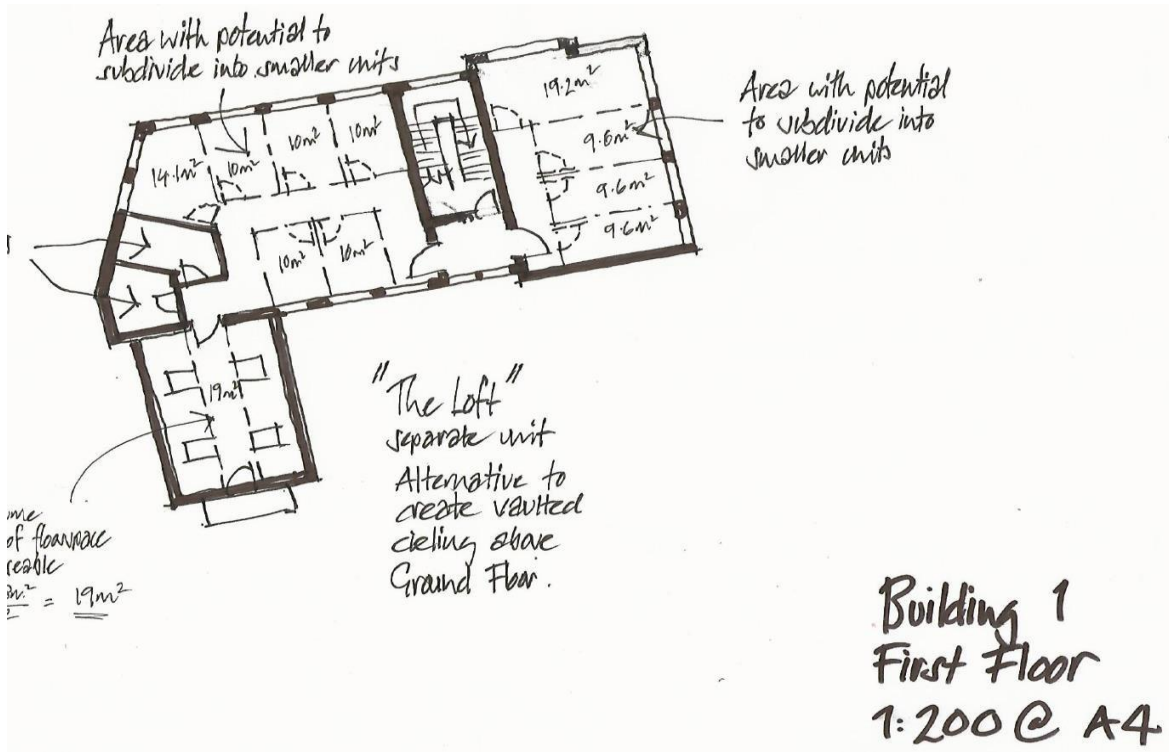


Figure 12

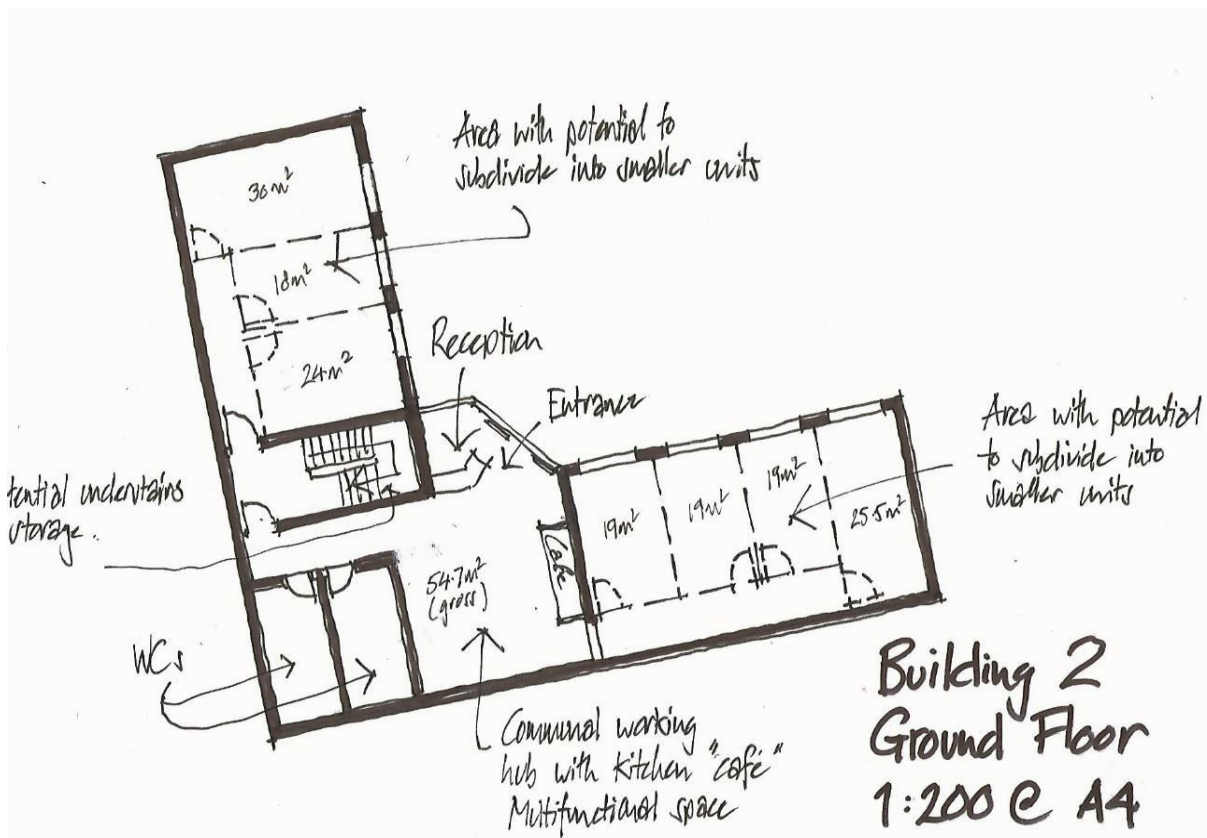


Figure 13

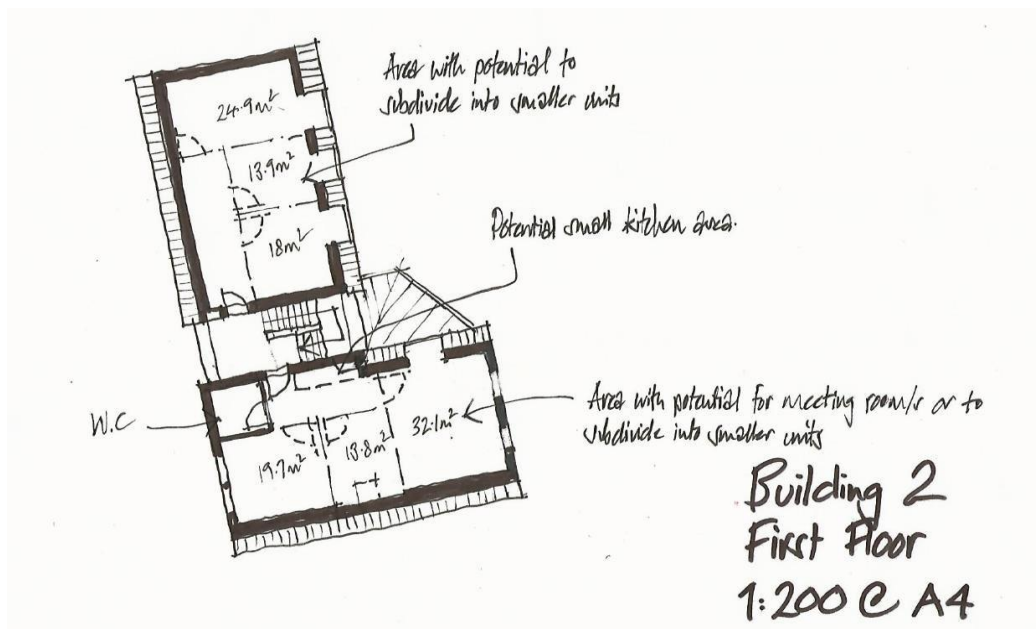


Figure 14

### 2.2.5 Capital project costs

The total project cost shown in the 2019 Business case review is circa £2.8 million, including an additional contingency for abnormal costs (such as ground contamination).

Reviewing the Building Cost Information Service (BCIS) figures for new offices in this location identifies a range of figures according to height, and whether the buildings would be air conditioned or not. These figures are based on actual tender costs for office developments in the area. The BCIS data for this location is provided in the table at Appendix 4.

The data indicates that for non-air conditioned 1-2 storey offices, the mean build cost per m<sup>2</sup> is circa £1,730, the median £1,671 and the upper quartile £2,165. For a good quality, relatively simple building in this location we would therefore expect to target a base build costs of below £2,000 per m<sup>2</sup>.

The BCIS costs will reflect a basic fit out but would not allow for furniture. Who bears the costs of providing furniture will be dependent on which operating model is chosen and the preferences of incoming tenants and is therefore excluded from the cash flows. We estimate that the cost could in the region of £50-75 per m<sup>2</sup>.

We have been advised by Southwold Town Council that funding has been identified for the total cost of the project, as set out on page 19 below. This identifies a total available project budget of some £2.63 million. We would recommend a design review of the overall efficiency of the building within the planning floorplate. The design needs to work the space hard to maximise lettable/income generating areas. The emphasis should be on simplicity and flexibility but not at the expense of quality, with a view to securing a design that can be delivered within the available budget.

The build costs may in addition attract VAT. The Town Council is in the process of securing advice on VAT and how it can be mitigated. If there remains a residual amount of VAT cost to be met, this will either come out of the total project budget and be taken into account in the design review or could be secured through the negotiation of a cost sharing arrangement with a preferred Operating Partner.

### 2.2.6 Income

The 2019 Business Case discusses the proposed rental rate for the Hub and states that the financial models is based on an average annual rental rate for offices of £22.00 per square foot (£236.8 per m<sup>2</sup>), excluding VAT.

To assess the viability of the proposed Enterprise Hub at Southwold, we have scrutinised the financial structures under which such centres operate to consider what a sustainable but representative pricing structure might look like for Southwold. This is therefore not a simple £ per sq. ft. rental model.

The overall financial analysis indicates broad ranges of types of service provided, some of which are daily, some monthly and some on a per use basis. This evidence is based on the local market evidence as set out above in section 2.1.2 and the wider evidence in Appendix 2. This is summarised in the tables below:

Summary analysis	Desk	Hot desk	1 p office	2 p office	Larger	Virtual PCM	Membership	Meeting room
Per day		£10-30						
PCM	£80-£250		£135-£600	£ 550	£695-£1400		£80 - £195	
Per person/m					£100-150			
Address						£15-£39		
Address + phone						£25-£79		
Phone only						£12.50		
Per annum								
Per hour								£10-£40
Per day								£60-£160
Average (say)	£ 150.00	£ 15.00	£350	£550	say £135/p	£30 £50 £12.50	£100	£20 £120 (size related)

Table 4: Charges by type of service

Rental information - where available			
Location	£psf/pa	£m <sup>2</sup> /pa	Comments
Ipswich Felaw	£ <b>31.00</b>	£ <b>333.70</b>	
Leiston	£ <b>23.00</b>	£ <b>247.58</b>	
Beacon, Gorleston	<b>£32.64 - £33.66</b>	<b>£355.20 (average)</b>	Inc. Rates
Riverside Lowestoft	£ <b>28.70</b>	£ <b>309.00</b>	
Framlingham	<b>Not available as £ psf</b>	<b>N/A</b>	
Basepoint Ipswich	£ <b>75.60</b>	£ <b>813.78</b>	Outlier - Small unit
St.Margarets Ipswich	£ <b>20.31</b>	£ <b>218.62</b>	

Table 5: Charges represented as a rent per square ft/square metre for local comparables

Based on these findings, we have taken a cautious approach to developing an indicative pricing model for the proposed Southwold facility. The table below shows our assumptions as to the indicative monthly charges for offices/desk space at the Hub on a per person per calendar month basis (pppcm). These



rates are inclusive of all utility costs, cleaning, management, and maintenance. (Rates are normally charged to the occupier except where spaces are shared).

Rental distribution assumptions Based on analysis						
Occupation	Rent pp per cm	%	65	Total pcm	Average PP	
1 p office	£ 350 pppcm	40%	26	9100		
2 p office	£ 275 pppcm	25%	17	4675		
Bigger offices	£ 135 pppcm	25%	16	2160		
Desk	£ 150 pppm	10%	6	900		
			<b>65</b>	<b>16835</b>	<b>259</b>	<b>Say £255</b>

Table 6: Assumed rental distribution by usage

The table indicates the average pricing for each type of occupier based on the evidence, and then applies an assumed percentage of occupation based on the consultation with local agents and operators. It reflects the advice that the majority of demand will come from individuals and smaller two person businesses, but also allows for representation of larger businesses and individuals who prefer to simply rent a desk in a communal area or shared office.

We have then identified an average charge per potential full-time occupier of £259 per calendar month, which we have rounded down to £255. Further analysis establishes what these assumptions would represent for the larger office space users on a £ per sq ft/£ per m<sup>2</sup> basis. (NB. This figure is based on the Hub offering the 'essentials' set out in Tables 2 and 3). This enables comparison with the £ per area advice received from local operators for all-inclusive space, and with the local comparables.

Bigger office per sq ft figures					Inclusive	Inclusive	Inclusive	Inclusive
No of people	M2 pp	sq ft pp	Total m2	Total sq ft	Rent pcm	Rent pa	Rent pa/m	Rent pa/sf
3	7	75.35	21.00	226.05	£ 405	£ 4,860	£ 231.43	£ 21.50
4	7	75.35	28.00	301.40	£ 540	£ 6,480	£ 231.43	£ 21.50
5	6.9	74.27	34.50	371.37	£ 675	£ 8,100	£ 234.78	£ 21.81
6	6.9	74.27	41.40	445.64	£ 810	£ 9,720	£ 234.78	£ 21.81
7	6.9	74.27	48.30	519.91	£ 945	£ 11,340	£ 234.78	£ 21.81
8	6.9	74.27	55.20	594.19	£ 1,080	£ 12,960	£ 234.78	£ 21.81
9	6.9	74.27	62.10	668.46	£ 1,215	£ 14,580	£ 234.78	£ 21.81
10	6.75	72.66	67.50	726.59	£ 1,350	£ 16,200	£ 240.00	£ 22.30
11	6.75	72.66	74.25	799.25	£ 1,485	£ 17,820	£ 240.00	£ 22.30
12	6.75	72.66	81.00	871.91	£ 1,620	£ 19,440	£ 240.00	£ 22.30
13	6.75	72.66	87.75	944.56	£ 1,755	£ 21,060	£ 240.00	£ 22.30
14	6.75	72.66	94.50	1017.22	£ 1,890	£ 22,680	£ 240.00	£ 22.30
15	6.75	72.66	101.25	1089.88	£ 2,025	£ 24,300	£ 240.00	£ 22.30

Table 7: Analysis of rental equivalents for larger office users:

The above indicates a **rental equivalent** range of £21.50 per square foot to £22.30 per square foot for larger office usage. This is comparable to the lower figures evidenced locally, and closely compares with the charges at Leiston. These figures are also below the range indicated by local operators of such facilities in the region as shown at Appendix 3.

It should be noted that the figures should not be compared with the advertised rent for small individual offices in the region, as those do not include utilities and services, and are usually based fixed term leases often including maintenance liabilities, which represent a significantly greater risk and less flexible option to the occupier.

The 2019 Business Case review increased the existing shop rental to £7.95 per square foot but noted that this was significantly lower than the Council's other retail premises on Station Road. Given that there is no longer an existing tenant it is recommended that the rental level set is brought in line with that charged on the Council's other properties in the adjacent Hurren Terrace. The second-hand properties at Hurren Terrace currently attract a rent of in the order of £10 per square foot overall (as confirmed by STC). This has been adjusted to take into account that a shop as part of the proposed Station Road development would be new. On this basis, a rent averaging £12 per square foot overall has been adopted for the financial analysis where the shop is included.

### 2.2.7 Procurement

Based on our research we would consider it prudent to build in time for consultation with local operators from the outset, However, how and when the operator is procured should be considered at an early stage in the programme, to establish the procurement timetable in accordance with revised national procurement processes post Brexit. Pros and cons of the timing of the appointment are set out below.

Timing	Pros	Cons
<b>Design stage</b>	<ul style="list-style-type: none"> <li>• consistent approach</li> <li>• design will align closely with operator's business model</li> <li>• marketing can begin early</li> <li>• time, energy and enthusiasm levels higher as have a reason to be fully invested in the project</li> </ul>	<ul style="list-style-type: none"> <li>• all eggs in one basket</li> </ul>
<b>Post design</b>	<ul style="list-style-type: none"> <li>• consultation with more than one before procurement could bring the benefit of multiple experiences/ fusion of ideas</li> </ul>	<ul style="list-style-type: none"> <li>• may have different views and design may end up favouring one operators model reducing interest from others.</li> <li>• might end up with a compromised scheme.</li> <li>• scheme might not meet the requirements of the operator selected</li> </ul>

Table 8: Advantages and disadvantages of early operator procurement

### 2.2.8 Funding

The Town Council has access to CCF funding of £895,000 of which £809,000 is capital funding and £894,000 in reserves from the sale of a property. Another property earmarked for the financing of the development, is being sold which will add another £900,000, giving a total sum of £2.63m available for the project. (This is less than the total project cost shown in the 2019 Business case review of circa £2.8 million).

### 2.2.9 Operating model

There are number of alternative operating models that can be adopted for facilities of this kind. These fall into two categories:

1. Owner Management – the owner of the facility acts as the operator and employs the staff and takes responsibility for all management cost and risks.

2. Partnership with a specialist operator
  - i) Management contract where the owner pays the operator a fee/share of rent to manage the site on their behalf.
  - ii) Lease and service level agreement where the operator pays a commercial standard office rent to the owner and agrees to deliver a set of agreed outputs against targets through management of the facility. The head lessee (operator) will retain or share any uplift in rent secured from the building.

### **2.2.10 Marketing**

We concur with the overall approach to marketing set out in the 2019 Business case, however, it would be appropriate to agree a detailed marketing strategy with an operator as they will have hands on experience of the most effective and targeted mechanisms.

Marketing should be considered at the design stage to ensure that the branding and physical look and feel of the building presents and reinforces a consistent message.

Discussions with operators also highlighted the importance of maintaining a waiting list to maximise occupancy and to avoid unnecessary costs.

### **2.2.11 Alternative uses**

The level of interest in the Hub as proposed will become apparent once marketing commences. If after an initial period (circa 12-18 months) take up for office type users is lower than anticipated, consideration could be given to the marketing of some of the rooms in Building 2 as clean workshop /makers' spaces to improve occupancy and mitigate potential losses. It is recognised that the rents achievable would be significantly lower, but we believe that this is a better option than leaving spaces empty in the long term. The design would need to take this possibility into account by including for example, drainage to some rooms to enable sinks to be fitted if required.

In addition, a design that could, in a worst-case scenario, be converted easily for residential use would provide a valuable exit strategy. Care will however need to be taken to ensure that this does not detract from the look and feel of the building first and foremost as an Enterprise Hub.

## **2.3 Section 8 - Financial Appraisal**

### **2.3.1 Operational financials**

Based on the analysis of the rents set out above, and the indicative layout that may be appropriate to this type of facility, we have calculated the total indicative number of full-time users that might be accommodated in the building. We have considered the options of both including a shop, and in the circumstances where no shop tenant can be secured, a no shop full Enterprise Hub model. On the assumption of between 6 and 10 m<sup>2</sup> per person, the indicative layout, excluding the use of the communal area for hot desking and casual working, suggests a cautious capacity of 60/65 full time users depending on whether a shop is included. Assuming an average of 65 occupiers, and a gross floorspace in accordance with planning of circa 900 m<sup>2</sup>, at a conservative net to gross ratio of say 60% this represents around 8.3 m<sup>2</sup> per person.

Assuming a gross area of circa 900 m<sup>2</sup>, typical net to gross ratios for this type of development range between 60% and 75%, representing circa 540 m<sup>2</sup> to 675 m<sup>2</sup> net, final figures will be subject to detailed design. It should also be noted that traditional net to gross figures do not fully represent the income generating capacity of the operation as they would in a traditional office, as income is also secured (for example) from meeting room rental, use of casual desk spaces in break out areas on a per day basis, and virtual tenancies that do not occupy floorspace.



This analysis of an average of circa 8.3 m<sup>2</sup> per person demonstrates that the assumed indicative capacities used to inform the financial analysis can readily be accommodated. The capacity figures adopted to support the financial analysis are broken down as follows:

**Building 1 Ground floor with shop:**

3 x 7.6 m <sup>2</sup> offices – 1 person each	3	
1 x 9 m <sup>2</sup> office – 1 person	1	– combined with 76 m could accommodate 3 =+1
2 x 10 m <sup>2</sup> offices – 1 person each	2	– 2 combined could accommodate 3 people = +1
<b>Building 1 First floor with shop:</b>		
1 x 15.5 m <sup>2</sup> offices – 2 people	2	
4 x 10 m <sup>2</sup> offices – 1 person each	4	– 2 combined could accommodate 3 people = +2
1 x 14.1 m <sup>2</sup> office – 2 people	2	
1 x 12 m <sup>2</sup> office – 2 people	2	
<b>Total for Building 1</b>	<b>=</b>	<b>16, with further potential for + 4</b>

**Building 2 Ground floor:**

3 x 19 m <sup>2</sup> offices – 3 people each	9	If combined with 25 m <sup>2</sup> office could create 50 m <sup>2</sup> = +1
1 x 18 m <sup>2</sup> office – 3 people	3	
1 x 30 m <sup>2</sup> office – 5 people	5	
1 x 24 m <sup>2</sup> office – 4 people	4	
1 x 25.5 m <sup>2</sup> office – 4 people	4	

**Building 2 First floor:**

1 x 24.9 m <sup>2</sup> office – 4 people	4	
2 x 13.9 m <sup>2</sup> office – 2 people	4	
1 x 18 m <sup>2</sup> office – 3 people	3	
1 x 19.7 m <sup>2</sup> office – 3 people	3	
1 x 32.1 m <sup>2</sup> meeting room(s)	0	Potential for +5
<b>Total for Building 2</b>	<b>=</b>	<b>39, with further potential for + 6</b>

**Total 55 with potential for up to 10 more to 65**

**Working assumption say 60**

**Building 1 Ground floor without shop:**

3 x 7.6 m <sup>2</sup> offices – 1 person each	3	
1 x 9 m <sup>2</sup> office – 1 person	1	– combined with 76 m could accommodate 3 =+1
3 x 10 m <sup>2</sup> offices – 1 person each	3	– 2 combined could accommodate 3 people = +1
1 x 14.1 m <sup>2</sup> office – 2 people	2	
<b>Building 1 First floor without shop:</b>		
2 x 19 m <sup>2</sup> offices – 3 people each	6	
3 x 9.6 m <sup>2</sup> offices – 1 person each	3	– if combines could accommodate 4 = +1
5 x 10 m <sup>2</sup> offices – 1 person each	5	– 2 combined could accommodate 3 people = +2
1 x 14.1 m <sup>2</sup> office – 2 people	2	
<b>Total for Building 1</b>	<b>=</b>	<b>25, with further potential for + 4</b>

**Building 2 Ground floor:**

3 x 19 m <sup>2</sup> offices – 3 people each	9	If combined with 25 m <sup>2</sup> office could create 50 m <sup>2</sup> = +1
1 x 18 m <sup>2</sup> office – 3 people	3	
1 x 30 m <sup>2</sup> office – 5 people	5	
1 x 24 m <sup>2</sup> office – 4 people	4	
1 x 25.5 m <sup>2</sup> office – 4 people	4	

**Building 2 First floor:**

1 x 24.9 m <sup>2</sup> office – 4 people	4
2 x 13.9 m <sup>2</sup> office – 2 people	4
1 x 18 m <sup>2</sup> office – 3 people	3
1 x 19.7 m <sup>2</sup> office – 3 people	3

1 x 32.1 m<sup>2</sup> meeting room(s)      0      Potential for +5  
**Total for Building 2      =      39, with further potential for + 6**

**Total 64 with potential for up to 10 more to 74**  
**Working assumption say 65**

In addition, based on a cautious approach, and recognising that there will be competition from the proposed co-working space (up to 30 spaces) at the SouthGen development, we have assumed the additional income generating uses as:

- 15 casual hot desking visitors, using a hot desk space for 5 days each per month
- 30 virtual office users (in line with advice from existing operators)
- Meeting room space used 7 days per month – we have assumed wither one large room or a combination of smaller tooms – there is significantly more capacity

This combination has enabled us to assess the total rental income generating capacity for the indicative development, as follows:

<b>Cautious approach to income assessment (including shop)</b>				
Shop	49.9 m <sup>2</sup> @ £130 per M2 (£12 psf)	£	6,500	£ 542 pcm
60 full time spaces available		60 x £255	£	15,300 pcm
Average price per space per month £255		Average figure		
Say 15 casual visitors using hot desks				
Desks used say 5 days per month		15 x 5 x £15	£	1,125 pcm
Hot desks £15 per day				
Virtual office users				
Say 30 @ 40 per month			£	1,200 pcm
Meeting rooms				
say used 7 days per month			£	840 pcm
Average £120 per day				
<b>Ancillary services</b>				
Copying etc say				
500 B/W sheets 5p			£	25 pcm
250 Coloured sheets 20p			£	50 pcm
		Total Hub income	£	18,540 pcm
		=	£	222,480 pa
		<b>Say</b>	<b>£</b>	<b>220,000 pa</b>
		Occupancy	£	187,000 85%
		Occupancy	£	176,000 80%
		Plus shop	£	182,500
		Say	£	182,000

<b>Cautious approach to income assessment (No shop)</b>				
65 full time spaces available		65 x £255	£	16,575 pcm
Average price per space per month £255		Average figure		
Say 15 casual visitors using hot desks				
Desks used say 5 days per month		15 x 5 x £15	£	1,125 pcm
Hot desks £15 per day				
Virtual office users				
Say 30 @ 40 per month			£	1,200 pcm
Meeting rooms				
say used 7 days per month			£	840 pcm
Average £120 per day				
<b>Ancillary services</b>				
Copying etc say				
500 B/W sheets 5p			£	25 pcm
250 Coloured sheets 20p			£	50 pcm
		Total	£	19,815 pcm
		=	£	237,780 pa
		<b>Say</b>	<b>£</b>	<b>235,000 pa</b>
		Occupancy	£	199,750 85%
		Occupancy	£	188,000 80%

Tables 9 and 10: Estimated annual combined base income assessment

This indicates a total income generating capacity based on local evidence of circa £220,000 per annum assuming a shop is included, and circa £235,000 if no shop is provided. The full rental value in the

2019 Business Case review, based on 100% occupancy and a £/sq ft calculation, was in the region of £255,000. The lower figures quoted above reflect the different approach to charging (which has been validated by local agents) and the reduction in capacity to reflect a COVID compliant scheme. We have erred on the side of caution for business planning purposes but believe that the income could be improved with effective management and improved economic circumstances.

The nature of innovation/incubation flexible space is such that there is intended to be a churn of occupiers, and a movement of businesses in and out of the facility. We therefore sought views from local agents and operators of an appropriate assumption as to annual average occupancy. The advice indicated that a very cautious assessment would be 80-85% occupancy – figures often used (according to location and actual performance) for valuation purposes. However, operator evidence indicates that this can be as high as 95% where the centre is actively managed and waiting lists of interested potential occupiers are maintained.

For the purposes of our financial analysis, we have assumed a gradual take-up of space over a 3-year timeframe and then adopted a cautious average occupancy of 80% once the Hub is fully operating; This indicates an assumed annual core income of circa £182,500 minus £6,500 for the shop which equals £176,000 per annum from year 4 onwards.

Build-up of rent	80% of rental capacity achieved year 4 onwards	Year 1 35% of the 80% assumed maximum operating performance	Year 2 56% of the 80% assumed maximum operating performance	Year 3 80% of the 80% assumed maximum operating performance
With shop	£176,000 pa	£61,600	£98,560	£140,800
Without shop	£188,000 pa	£65,800	£105,280	£150,400

Table 11: Rent profile over first 4 years of operation

This core income figure **excludes** any additional income that may be generated by the following:

- Vending machines (if installed)
- Sponsorship
- Training
- Wider usage of meeting rooms by external organisations/community users
- Partnership income from agreements with local providers such as caterers
- Savings from any local community agreements relating to garden/outdoor upkeep
- Evening usage of meeting/communal spaces
- Conference/corporate usage for specific events

We have not included any additional service charge income as the evidence on which our pricing is based is predominantly for inclusive costs. This differs from the assumptions made in the 2019 review.

In respect of the retail space, we have assumed that the space will be let from the outset allowing for a two year rent free period for tenant fit out. We strongly advise that a shop should only be included in the design if a pre-let can be agreed.

The operating costs included in the cash flows used for this report are based on those adopted in the 2019 Business Case review. The original business case assumed that the Town Council would manage the facility. We would not recommend this approach given the specialist nature of the facility and the extent of hands-on management likely to be required. We have therefore considered two outsourced management options:

- a commercial lease and service level agreement, where the Council would receive a rent from an operator who would then run the building and the facility; and

- a management contract operating model where the Council would contract a third party organisation to manage the facility for a fee, but the Council would retain responsibility for the building.(Our evidence for this model is based on direct experience from elsewhere)

This has allowed us to compare the cashflow implications of the differing approaches. Actual costs will only be established after the procurement process. It should be noted that the figures assumed for the management costs and rental models are commercially sensitive and could prejudice both any bidding process to secure an operator partner, and any later negotiations that may take place. We therefore suggest that these detailed figures should at this stage be treated as confidential.

### 2.3.2 Financing

The 2019 Business Case review assumed a total project cost £2.8 million and that the project would be part funded by borrowing. The cash flow forecast contained within the review therefore modelled a Public Works Loan Board loan for £1.096m taken over a 30-year period with the operational income from the Hub used to service the debt.

The Town Council, however, does not want to see any part of the project funded by borrowing. As discussed above the total funding available for the project is £2.63m and the cashflows included within in this report have taken this into account recognising that costs need to be reduced given the finite sum available. The total indicative rent to the Council (assuming a shop is included) under a zero borrowing approach represents a return of circa 1.9% pa on investment including the grant monies or 2.7 - 2.8% if the grant is excluded. This is a positive return on investment but is not comparable to a typical property investment return for a commercial property. This is a regeneration project based on grant funding, therefore the key outputs and measures of success are not exclusively financial, as they are for a purely commercial investment.

#### Sensitivity

As the baseline assessment is cautious, we have also sensitivity tested the potential income generation capability of proposed Hub to reflect a more positive assumption on usage, as follows:

<b>More positive approach to income assessment with shop</b>				
Shop	49.9 m <sup>2</sup> @ £130 per M2 (£12 psf)	£ 6,500	£ 542	pcm
65 full time spaces available		65 x £255	£ 16,575	pcm
Average price per space per month	£255	Average figure		
Say 20 casual visitors using hot desks				
Desks used say 5 days per month		20 x 5 x £15	£ 1,500	pcm
Hot desks £15 per day				
Virtual office users				
Say 40 @ 40 per month			£ 1,600	pcm
Meeting rooms				
say used 10 days per month			£ 1,200	pcm
Average £120 per day				
<b>Ancillary services</b>				
Copying etc say				
750 B/W sheets	5p		£ 38	pcm
500 Coloured sheets	20p		£ 100	pcm
		Total	£ 21,013	pcm
		=	£ 252,150	pa
		<b>Say</b>	<b>£ 250,000</b>	<b>pa</b>
		Occupancy	£ 212,500	85%
		Occupancy	£ 200,000	80%
		Plus shop	£ 206,500	
		Say	£206,500	

<b>More positive approach to income assessment no shop</b>				
70 full time spaces available			70 x £255	£ 17,850 pcm
Average price per space per month £255			Average figure	
Say 20 casual visitors using hot desks				
Desks used say 5 days per month			20 x 5 x £15	£ 1,500 pcm
Hot desks £15 per day				
Virtual office users				
Say 40 @ 40 per month				£ 1,600 pcm
Meeting rooms				
say used 10 days per month				£ 1,200 pcm
Average £120 per day				
<b>Ancillary services</b>				
Copying etc say				
750 B/W sheets 5p				£ 38 pcm
500 Coloured sheets 20p				£ 100 pcm
			Total	£ 22,288 pcm
			=	£ 267,450 pa
			<b>Say</b>	<b>£ 265,000 pa</b>
			Occupancy	£ 225,250 85%
			Occupancy	£ 212,000 80%

Tables 12 & 13 Sensitivity analysis

This indicates the potential for an uplift in income of circa 12% for relatively minor changes in occupancy and usage. The generation of income will therefore be sensitive to fluctuations in usage, which reinforces the need for focussed specialist management and promotion, and the benefit of being able to source occupiers from a wider pool, for example, if a group operator has a waiting list in other locations and can offer space in Southwold as an alternative.

### 2.3.3 Cash flow forecast

The cash flow is based on that produced by Moss King Associates in 2019, but adjusted to reflect the revised income assumptions, and to demonstrate the impact that the exclusion of a shop may have on the overall cash flow.

We have also removed any inflation assumptions relating to both income and expenditure and based the cash flow on current costs and current income estimates. Whilst both will change over time, the percentages applied to each are too uncertain to predict, so uncertainty in the figures and the pattern of income against expenditure can only be increased by their inclusion.

Starting with the assumption that the Hub is let to an operator for a rent, we have adopted a relatively low indicative market rent for the space, on the basis that all the risk and liability for the Hub, including repairing liability, would transfer to the operator. The assumed rent from the operator is based on a cautious assumption as to income generating areas of circa 650 m<sup>2</sup> (7,000 sq ft) compared to the gross area of circa 900 m<sup>2</sup> (9,700 sq ft). The actual rent that could be achieved will be a product of negotiation, and the quality, size, layout and flexibility/efficiency of the finished product.

Where the shop is included, the size of the overall Hub space is reduced by around circa 50 m<sup>2</sup>, so the assumed rent from the operator also reduces, but this is to some extent compensated for by the rent received from the shop.

The cash flows identify the cumulative net income over time to both the operator and the Council, as follows:

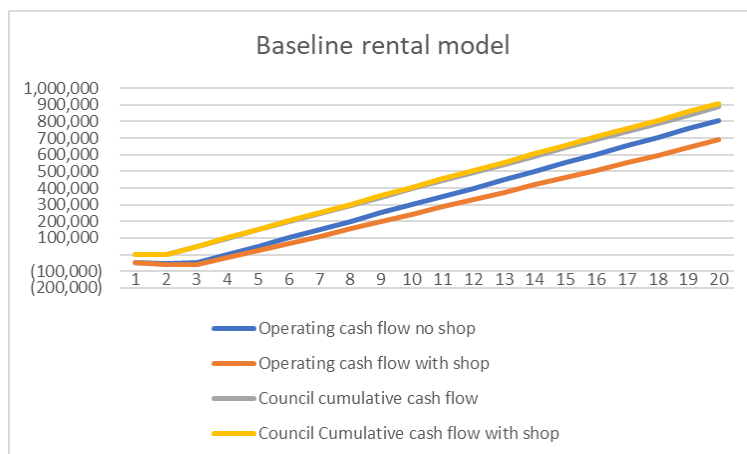


Figure 15: Rental basis Cash flow outcomes – Baseline with and without shop

The baseline cash flow for this rental model indicates that the growth for the operator is lower with the shop, and conversely very marginally lower for the Council without the shop. Overall, assuming the critical mass of the Hub remains of interest to an operator despite the inclusion of the shop, then the provision of a shop makes little difference. Over a 20 year period, the total accumulated income to the Council amounts to circa £900,000. The return on investment to the Council is between 2.7% and 2.8% on the capital invested (excluding the grant).

Assuming a 2 year rent free period, the Hub becomes income producing to the Council in Year 3. The early years loss is borne by the operator, but is covered by income growth from later years. The Hub generates a positive operating income from Year 3 with no shop and Year 4 with the shop, and a positive return to the operator from year 4 with no shop and year 5 with a shop. On this basis it is likely that the operator may seek an additional year of rent free period if a shop is included, at a cost to the Council of circa £44,000.

Under this model, the Council is shielded from any risk, as all risk and responsibility for the centre is transferred to the Operator. There is also the opportunity to agree a profit share element with the operator above a certain level of occupancy or income, and potential for some of this to be reinvested.

We have also considered the sensitivity of the model if slightly more positive assumptions as to operation are made, as set Tables 12 & 13 on pages 30/31. The outcome of the more positive assumptions has no impact on the indicative Council position (but would be beneficial if an element of profit share is included), and affects the operator's potential income as follows:

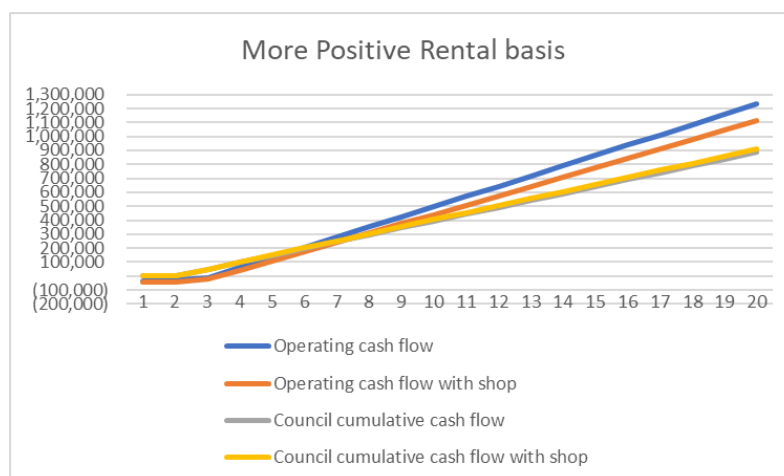


Figure 16: Rental basis Cash flow outcomes – More positive assumptions with and without shop

This shows that from an operating point of view, the cash flow becomes positive earlier, and the overall income generating potential is considerably higher, and overtakes the Council's income.

Looking at the contractual model, the picture is different. For this model we have assumed that the Council enters into a contract with an operator for a base fee plus a percentage of the gross rent (as

an incentive to work the centre as hard as possible). Whilst the operator will manage all the costs and finances, the Council will retain responsibility for the building, and will bear any net loss in the early years. This model is therefore more of a risk to the Council, and as a result of the risk taken generates a higher overall cumulative income over time. As above, we have considered a cautious baseline approach and compared this to the more positive assumptions to gain an understanding of the sensitivity of the outcome to changes in performance.

The outcome of the baseline assessment is as follows:

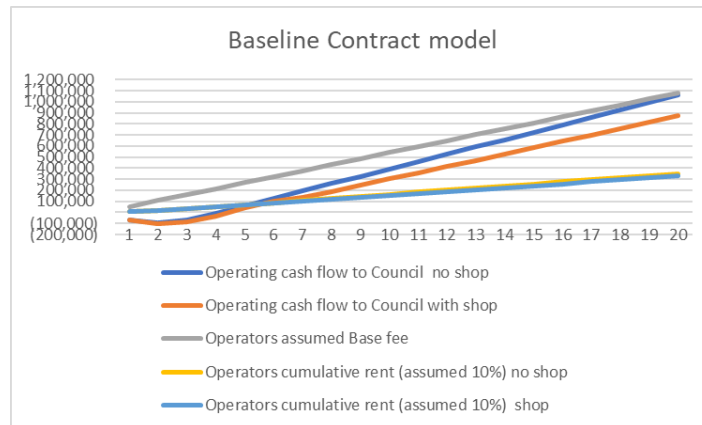


Figure 17: Contract basis Cash flow outcomes – Baseline with and without shop

This indicates that the Council could have to carry a financial loss until year 5 when overall cash flow to the Council becomes positive. Peak debt occurs in year two at circa £94,000 without the shop, and circa £103,000 with the shop. Overall, the Council's income accumulates to around £1million without the shop (about £100,000 higher than the rental model – reflecting the additional risk) and just under £900,000 with it, which is similar to the assumed rental model. In both scenarios in the early years the Council would carry a loss. The inclusion of the shop has little impact on the cumulative income over time for the operator, as the majority of income will be based on a fee to cover their overheads.

Based on the more positive assumptions, the outcome for the rental model is as follows:

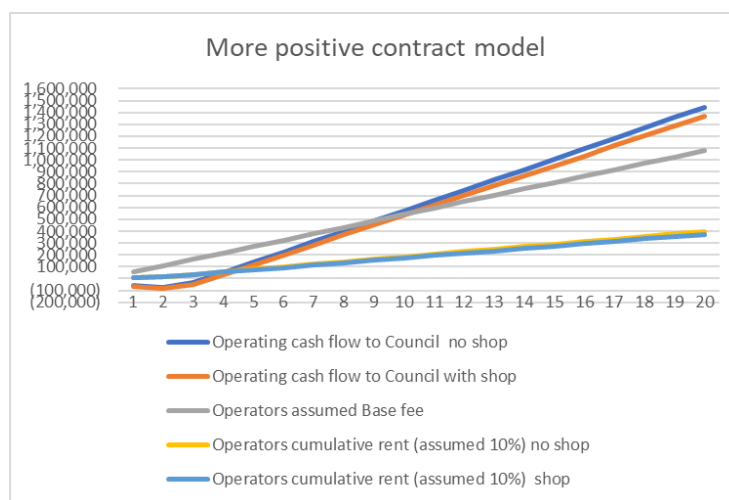


Figure 18: Contract basis Cash flow outcomes – More positive assumptions with and without shop

This indicates that the better performing the Hub, the less impact the rental of the shop will have on the overall cumulative cash flow to the Council. Again, the Council would carry a debt but only until year 4, with a peak debt of circa £75,000 if no shop is included, and circa £84,000 with the shop. The marginal assumed improvement in performance indicates an additional overall cumulative income to the Council of circa £3-400,000 over a 20 year period. This is a greater increase than is demonstrated by the rental model, reflecting the greater level of risk being taken.

Overall, the cash flows indicate that the proposed development is viable from an operational point of view, and can generate a low return on the capital to be invested by the Town Council.

The rental operating model would be the least risky option for the Council, and would avoid the need to address an upfront shortfall in income. Regardless of which model is selected, given the aspiration for the Hub to work in tandem with the co-working space at SouthGen, further down the line there may be merit in giving consideration to joint management of the space at SouthGen and the proposed Hub. This could not only provide savings but encourage opportunities for cross fertilisation and ensure occupancy is maximised.

Further details of the cash flow are provided at Appendix 5

### 2.3.4 Exit Strategy

Once the Hub is established and assuming the potential income streams set out in the cash flow are achieved or bettered, the Council may wish to consider a disposal to liquidate the capital invested to fund other projects in Southwold.

There are several options

- Sale to the incumbent operator
- Open market competitive sale to an operator
- An investment sale – more likely to appeal if the Hub is operated using the lease model.

The decision and timing of any sale will be dependent on the value of the building plus the income already received, balanced against the motivation for sale and the need to recoup some capital.

If for any unforeseen reason the project were to fail, then the site has value for residential use, and subject to final design and planning , the buildings could be converted.

## 2.4 Section 13 - Monitoring and Evaluation

The original business case recognised that the indicators developed as part of the CCF grant application remain relevant to the project, as deliverables that should be achievable. It also recommended that baseline measurements should be captured as a specific task in the first three months of the capital project, to allow repeated reflection and measurement against those baselines in subsequent years. The indicators contained within the original business case review are set out below with our comments as to their achievability. This includes considering the timeframes set out for the individual outputs as well as the outputs themselves.

Indicator	Measure	By when*	DLA Observations	
Direct FTEs	39	Qtr 2 2019	2	DLA forecasts assume that the Hub will 80% full by the Year 4 of operation. Using a cautious approach this could result in the region of 60 to 65 FTE jobs direct and safeguarded jobs.
		Qtr 3 2019	1	
		Qtr 4 2022	28	
		Qtr 2 2024	<u>8</u>	
		Total	39	



Indirect FTEs	5	Qtr 4 2022 2.5 Qtr 2 2024 <u>2.5</u> Total 5.0	In terms of indirect new and safeguarded jobs we do not see any reason to change the estimate of 5 plus 10 previously stated.
Safeguarded FTEs	50 (40 at Hub, 10 in local supply chain)	Qtr 4 2020 26 Qtr 4 2022 6 SC Qtr 4 2022 14 Qtr 2 2024 <u>4</u> SC Total 50	
Construction FTEs	18	Qtr 4 2020 18	16 Based on 10 FTE per £1m construction cost
Private businesses supported	80 (business support package)	Qtr 4 2020 50 Qtr4 2022 <u>30</u> Total 80	Say 72 based on 27 rooms minimum 15 hot desks 30 virtual offices
New businesses started	5	Qtr 4 2020 5	No reason to change
Apprenticeships started	3	Qtr 2 2019 1 Qtr 2 2021 1 Qtr 2 2023 1	No reason to change
Brownfield land developed	0.12 ha	Qtr4 2020	0.12ha
New floorspace	578m <sup>2</sup>	Qtr4 2020	Depends on final design
Physical project supported	1	Qtr4 2020	1
Individuals supported	160	Qtr4 2020 100 Qtr4 2022 60	No reason to change
Organisations supported (private business)	80 (business support package)	Qtr 4 2020 50 Qtr4 2022 <u>30</u> Total 80	Double counting – this indicator should be removed
Public sector funding	£1.916m	Qtr 4 2020	Revised sum £2.63m Adjusted to reflect new estimates (includes £809k CCF)

\* Timescales reflect the build programme only and have not been updated due to lack of clarity as to the start date but growth profile is not disputed.

Table 14: DLA analysis of performance indicators

### 3. Risk

The primary risks for the project have been identified as falling into two distinct categories:

- Capital programme risks and
- Operational risks

With regard to the risks associated with the capital programme, independent construction consultants, Richard Utting Associates, have undertaken a risk assessment. This identifies the potential effect of risk to increased costs and/or delay the programme.

Turning to operational risks, as set out in the 2019 review, the greatest risk is that the income is less than anticipated, either as a result of a slower/lower take-up of units (because of decreased or changed demand); lower than projected rents being agreed for the space or the shop unit remaining vacant.

We have been cautious in our assessment of the rental income achievable and the take up of space and occupancy rates. We believe that these could both be bettered. Depending on the operating model adopted, the break-even occupancy points for the fully commercial and part retail options are indicated in the table below.

Operating Model		% of 80% occupancy rent adopted in cashflow	% of assumed Full Rental Value
Lease	All commercial	77	62
	With shop	79	63
Management	All commercial	71	57
	With shop	72	57

Table 16: Breakeven points for Baseline Income assumptions

The financial forecasts have compared the project with and without the shop and have quantified the financial impact of providing the retail space. As stated above this impact is minimal. However, the inclusion of the shop reduces the overall critical mass of the Hub which could detract from its appeal to the operator market. Notwithstanding the strong desire for a shop from the community, we have suggested above that retail space should only be included in the design stage if a pre-let can be agreed. If a shop tenant is not procured at the initial stage this represents a considerable increased risk to the Council. A worst-case scenario could involve additional costs of conversion to business space if a tenant is not found in the long term. An alternative option is to retain the existing shop. However, we agree with the assessment in the original review that there is a high risk that Planning would not approve a two-storey new build with the single storey existing shop in front. We also believe it would lessen the quality of the offer.

## 4. Conclusions

### 4.1 Key financial findings

Financially, the **operation** of a business hub in Southwold appears to be **viable and sustainable**, even at the reduced levels of income we have assessed by comparison with the previous business plan, and on the assumption of an average of 80% occupancy per annum once fully operational.

Based on the assumptions adopted for the financial analysis, the estimated break-even point at 80% capacity is circa 72%-79% of the rental figure tested, or between 57% and 63% of full estimated income generation capability. This demonstrates financial resilience.

The potential return on investment to the Council on the bases assessed is however low at between 2.7 - 2.8% per annum (excludes the grant). This is not comparable to a commercial property investment return for similar types of development.

The extent of the income share that will come to the Council will depend on the final design, final operating model adopted for the running of the facility, and negotiation of final terms.

We strongly recommend that an experienced operator is procured to manage the centre, as it is a specialist function that would benefit from a team with a portfolio of similar properties, and a hands-on approach to day-to-day operation. It is unlikely to be as successful or to thrive if it is part of the role of a manager who has a wider remit who cannot focus on the project full time.

In our view, a contractual partnership with a specialist operator is more likely to maximise income in the longer term.

Of the options considered, the rental model where the Council grants a lease to the operator who then bears the costs of operation and buildings maintenance offers the least risk, the greatest certainty of income and avoids the Council carrying the early years losses. Over the long term, this approach may not reap as much income to the Council if the project performs well. It will however protect the Council from negative fluctuations in demand over time.

### 4.2 Rent

The evidence suggests that the levels of rent per square foot adopted in the original business case were reasonable. However, the overall assessment of rent appeared high as the design did not accommodate appropriate shared facilities and included little circulation space or opportunity for interaction. In character its operation was more closely aligned to a traditional office rental model than an Enterprise Hub.

The approach we have adopted to assessing rental income reflects the ways in which comparable centres charge for space and services and is not therefore based on a pure rate per square foot or square metre. We believe this provides a more representative income potential and the approach is favoured by local agents. Our income assessment is therefore based on an assumed level of occupancy, as set out in section 2.3.1 tables 9 and 10 on page 28. These are the figures adopted for the cash flow.

Throughout the business case review our approach to estimating income has been cautious, however we believe that an operational income of circa £180,000-200,000 per annum, assessed as confirmed above, is achievable based on the analysis of the evidence and cautious assumptions as set out in the report.

There is scope for income to be improved, both by way of improving the efficiency of the building, by better performance over time (i.e. increased occupancy) and building the receipts from other income such as room hire, training and event hosting and wider out of hours usage by the community.

The inclusion of a shop makes very little difference to the overall financial position, but further reduces the capacity of the (already small) Hub by around 50 m<sup>2</sup> net (circa 7.5% - 9% of net anticipated floorspace).

Rents for Enterprise Hub occupation cannot be compared with rents for standard office space as the range of facilities and services provided are not the same.

#### **4.3 Target Market and demand**

Economic analysis confirms a need for business start-up and grow on space in the region.

The nature and mix of employment types in the surrounding area supports the case for an enterprise hub, however the Southwold population will not support the facility alone. It will therefore need to draw from a wider area.

There is market confidence that there will be sufficient demand to operate the proposed Enterprise Hub. It is impossible to quantify this as there is no take up evidence in Southwold reflecting the lack of existing office supply.

The majority of early demand is expected to come from micro 1 & 2 person businesses, with demand for larger businesses growing over time.

There is operator interest and confidence in a facility in Southwold.

Operators/agents consulted were strongly of the opinion that the proposed Hub should not be aimed at a specific sector but should seek to accommodate as wide a variety of business types as are compatible to maximise demand.

Uses should only be excluded where they would impact negatively on the Hub's operation. This will ultimately be a matter for the operator in consultation with the Council.

Securing demand will depend on strong branding and ongoing pro-active marketing.

The "Southwold Effect" is considered to be positive.

#### **4.4 Design and facilities**

We conclude that a design review is necessary for the Enterprise Hub to offer the right mix and style of accommodation to address market demand.

We have indicated above that the need for flexibility and simplicity in the design is paramount to enable reconfiguration of the spaces to meet changes in demand or to adhere to health-related restrictions. The design must also reflect the entrepreneurial character of future users and have a light modern feel with efficient systems and use of space to engender the buildings long term sustainability.

Shared rather than individual welfare and kitchen facilities should be included to enable and encourage tenant interaction.

The design review should enable community/out of hours usage of meeting spaces/communal areas if possible, and should consider suitability for fallback positions including workshop/maker spaces, and possibly suitability for long term conversion to residential use, but not at the cost of suitability for the primary Enterprise Hub use.

The design Review should seek to secure delivery within the fixed overall budget of £2.63 million.

Subject to budget limitations, we have indicated that the following items be considered at the design stage:

- Natural ventilation
- Wipeable surfaces/ antibacterial materials
- Accessible outdoor areas
- Lightweight but durable furniture (folding or demountable where possible) • Removable partitioning

- Streamlined designs for shared areas including kitchens and washrooms to facilitate cleaning
- Motion sensors

Furthermore, providing a link between the buildings would promote the feeling of the Hub being a single entity rather than two disparate buildings.

The proposed development is below ideal size.

If a shop is included, we strongly advise that this is pre-let. If no tenant is forthcoming the design can then be amended to incorporate the space within the Hub. To maximise size and capacity.

Retention of the existing shop building would be detrimental to securing a suitable development.

Ideally furniture should be provided/available if required by operators

Ideally meeting spaces should be capable of sub division to maximise flexibility and use.

Ideally the facility should enable “meet and greet” for visitors, and have a staffed reception, for at least part of its hours of operation. It should also enable out of hours access for users.

Use of space should be provided on easy-in/easy out terms rather than traditional leases, offering a package of working and charging arrangements in line with other similar centres, as reflected in the financial analysis.

The availability of Superfast Broadband is essential to the success of the project.

#### **4.5 Other findings**

Hub provision Norwich and Ipswich, and to a lesser degree Lowestoft are not comparable in scale and nature to that proposed in Southwold

Similar facilities are represented and operating successfully in other tourism dominated locations