

# Station Yard – Alternative Proposal

BUSINESS PLAN V 1.4

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# Station Yard Alternative Proposal: Business Plan

## Summary

An alternative scheme for Station Yard has been developed by an STC Task & Finish group, with designs from Haward Architects.

The scheme preserves the existing three businesses onsite, creating new shared premises for them in the large garage to the rear (south) of the site. The Blyth Road building, currently housing Finch's garage and the Cycle shop, will be converted into four light industrial units with four offices above. Two further fully accessible light industrial workshops will be created to the east of the large rear garage. Clancy's store on Station Road remains as is, with some updating.

The proposal involves the retention of the metal frames of the two large buildings, recladding them in new insulated metal sheeting, and, for the Blyth Road building, inserting a first floor suspended on the frame, with windows and doors to the Blyth Road frontage, and replacement glazing to the roof.

Up to 34 people could be employed by businesses in the yard, of which 13 jobs, and three businesses, may be new. Up to 21 of the jobs are expected to be of higher value. Three existing businesses will be protected in this scheme, with one intending to employ two new staff as a result of better premises.

All tenants within the yard would move out during the six-month construction period. Clancy's is intended to remain open throughout, subject to adequate separation from building works. A phased approach, where existing Station Yard tenants occupy one building whilst the other is being developed, would cost an additional £70k, adding two months to the build, but, importantly, would enable the current garage to continue operating from the Blyth Road building.

The capital cost of the project is estimated to be £2,018,210 net of VAT. This covers a single-phase build, professional fees, contingency, design reserve and inflation. Decontamination costs have been taken outside the project capital budget as they are currently unknown, and will be the same regardless of the ultimate scheme selected.

Station Yard would be run by a managing agent providing marketing, tenant liaison, accounting, inspections and condition surveys etc. Tenants would be on 10-year full repairing leases. Rental income is lower than in other schemes, because of the dominance of light industrial units, but nonetheless an annual profit should be achieved from year 1, on a (high) average 95% occupancy for the first 12 years.

It is understood this scheme would not be eligible for CCF funding due to its lower outputs than the Enterprise Hub. As the income over 30 years could service a PWLB loan of no more than £375k, it would need to be funded from Council reserves/property sales.

The risk profile of the scheme is broadly similar to others – capital costs may increase, the project may take longer. There is the risk that the large garage unit could be difficult to let in future, but longer leases, once let, protect the Council to some degree, in that they would be payable for the full term, provided the businesses in question remain solvent.

Of key importance will be the popularity of this scheme with members of the local community, and this may sway Council towards this scheme despite the financial disadvantages, which are significant, as it makes a loss of £944k on the investment.

## 1. The Proposal

An alternative proposal for the development of Station Yard is as a mixed-use facility, supporting the existing garages alongside new light industrial workshops and offices. The shop would remain in its current premises.

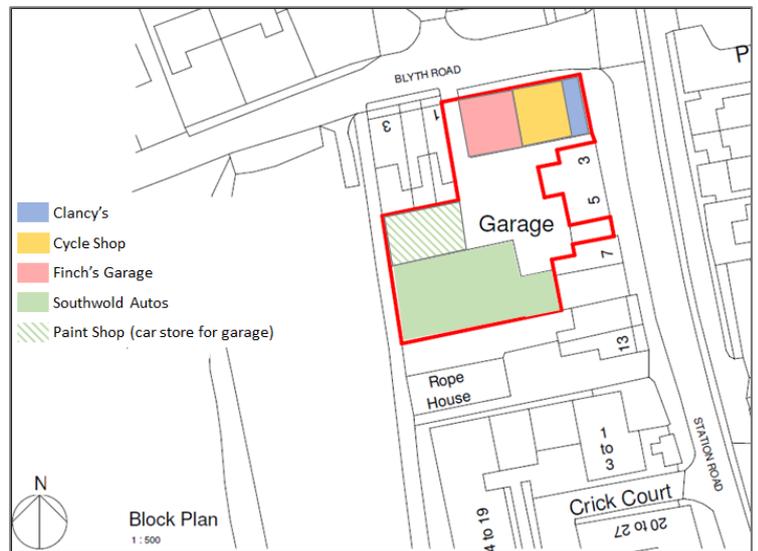
This document provides an outline business plan, based on a scheme developed by a special Task & Finish Group of Southwold Town Council, with draft designs by Haward Architects and a Cost Plan produced by Currie Brown.

### **Station Yard Site – Current Use & Ownership**

Today, Station Yard consists of three buildings leased to separate businesses. On its Station Road frontage there is also a convenience shopping outlet (an independent general store); behind it along Blyth Road are two buildings currently used as a garage and a cycle business.

In the courtyard behind is a large car repair garage and a former paint shop now used to park cars. The courtyard is also used for parking cars awaiting servicing, with vehicular access both through an archway under Hurren Terrace from Station Road and a narrow entrance from Blyth Road.

All the garage buildings are in poor condition and constructed with steel frames clad in metal and corrugated concrete panelling, the latter incorporating asbestos. Their deterioration has arisen partly because no significant maintenance work has been undertaken by tenants; Council has not enforced this due to the



expected short lifespan of the buildings, coupled with the intention, for the past 20 years, to replace them.

The convenience store on Station Road was built originally as a waiting room for the bus station but has long been in use as a shop. Its condition is relatively sound for a building of this type.

The businesses supported in Station Yard are important to many Southwold people. The larger garage undertakes MOT work, whilst the smaller garage at the front is not licensed for MOT and does repairs only. Because of the condition of the larger building, the tenants report they are unable to employ staff; this causes significant backlogs of cars to build up in the courtyard, which can be filled with vehicles.

The cycle shop on Blyth Road provides both low cost repair services for local residents as well as hiring of bicycles to visitors. Since its lease ended in 2019, the building has not been used.

Clancy's convenience store provides important everyday essentials for local people, as well as newspaper deliveries and sales of cards, some gifts etc.

All leases have come to an end, and without some action to remove the existing cladding and repair the buildings, Council could be forced to 'mothball' the site, ie secure both the buildings and the site itself, to prevent public access.

### ***Station Yard Site – Contaminated Land***

It has been established that there is contamination in Station Yard, both asbestos on the buildings, and ground contamination from its previous uses, including as a petrol station. The exact extent and nature of contamination is not known currently<sup>1</sup>.

The Regulator has stated that the contaminated land issue applies equally to any of the proposed developments for Station Yard. Their uses are all commercial/light industrial (and therefore there is a lower risk to humans onsite, compared to residential) and the land will be sealed off in the courtyard by hard surfacing.

The nature of the remediation would apply equally, regardless of construction approach. If groundwaters are contaminated, there will be a major remediation effort required; in contrast, if the contamination is contained, it could be possible to cap off the land.

The only minor difference between options could be in association with the care required to protect workers during construction, but this is a risk management procedural issue only.

### ***Station Yard - Proposed Alternative Development***

A Task & Finish Group for Southwold Town Council has undertaken work to develop an alternative proposal for Station Yard which retains the existing businesses, as well as developing the site to provide other facilities to attract businesses to the town.

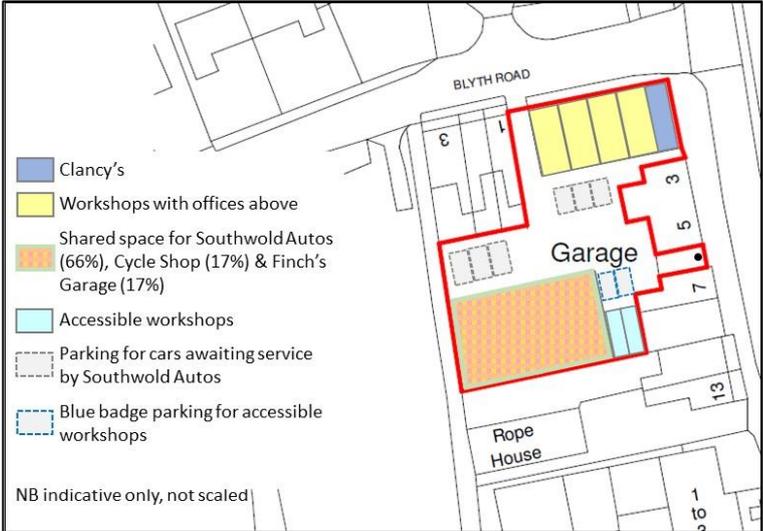
The development has been designed by Haward Architects, a respected local firm. The proposal will retain Clancy's convenience store as is, with some refurbishment and additional storage using part of the Blyth Road buildings.

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<sup>1</sup> Detailed surveys are due to begin later this month.

The remaining development consists of four elements:

- Demolition of the paint shop to the west of the site, and recladding of the existing metal framed large garage to the rear of Station Yard, incorporating an office and toilet/kitchen facilities, for shared use by three existing businesses: Finch’s Motors, the Cycle Hire Shop & Southwold Autos.
- Creation of two new-build light industrial workshop units, both fully accessible, to the east (Hurren Terrace) side of the large garage.



- Using the existing metal framework of the Blyth Road garages building, creation of four light industrial use workshops with four offices above. The units will have separate access, meaning that the upstairs can be let separately from the workshop downstairs (although it is possible some may be let to local businesses who wish both). Windows and doors will be let into the Blyth Road elevation, with new glazing in the roof, to allow light into the upstairs units.
- Paving of the internal courtyard, closing off the access from Hurren Terrace except for pedestrian traffic, which will follow a perimeter path around the site. Parking for three cars awaiting servicing by the larger garage will be created behind the Blyth Road building, with a further three on the old paint shop area, and two blue badge spaces outside the accessible units. The remainder of the site being used for manoeuvring of vehicles. Access for vehicles, both in and out, will be via the Blyth Road entrance.

In total, this means there would be up to 13 businesses supported within Station Yard, including the three existing in new premises, plus Clancy’s continuing outside in its existing premises.

Each of the Blyth Road building’s upstairs offices and light industrial workshop units below will have their own toilet and tea point facilities within their spaces. For the two accessible workshops, fully compliant accessible toilets will be installed.

The Blyth Road units each have a gross floorspace of 44m<sup>2</sup> which translates to an optimum occupancy of 5 people per office, meaning that they will be more suitable for ‘move on’ space for growing businesses than for start-ups. Occupancy in the workshop units is likely to be lower given the nature of the work and, potentially, equipment required within.

The two accessible workshops are smaller, with gross floorspace of 24m<sup>2</sup>. It is assumed that parking will be allowed for blue badge holders leasing these two units.

The large garage at the rear will be shared between the three existing businesses, without subdivision. This will allow a degree of cooperation between the businesses. Six parking spaces in the courtyard would be used exclusively by the larger garage for cars awaiting servicing, with other cars being held offsite as necessary, to prevent crowding of the courtyard.

Office units will be developed as 'shell plus', meaning that they will have all lighting, carpeting etc in place, but no furnishings. The workshop units will be similarly 'shell plus' but without carpeting etc. Each unit will be separately metered for utilities so that individual businesses can establish their own contracts. No sustainable energy schemes (eg PV panels) are included in the capital costs, although clearly tenants could choose to buy electricity from 'green energy' suppliers..

There is no parking onsite, other than the six spaces reserved for the larger garage's use for servicing cars plus blue badge spaces at the accessible workshops. Ad hoc parking will be available in the proposed Millennium Foundation Car Park, close to Station Road. Additionally, ten reserved spaces have been agreed with the Millennium Foundation, which can be rented to tenants on an annual basis, with a small percentage of the income being returned to SMF to support ongoing maintenance. Given that business use is generally not on weekends and bank holidays, Station Yard businesses and their visitors could provide useful addition income to the Foundation without reducing capacity at peak visitor times over weekends.

The retail unit on the Station Road frontage will be redecorated with some additional first floor storage at the rear, using – and removing- the current flying freehold space within the garage next door.

The introduction of up to 34 workers immediately behind the shop should deliver additional footfall to the business – and the wider vicinity - helping to improve year-round sustainability.

Because of Station Yard's location outside the designated High Street zone but adjacent to it, it will be more affordable for businesses, with lower rent and rateable values. Business premises in Southwold are in short supply. The four office units within Station Yard will boost this supply, providing alternative accommodation for businesses that do not need to be close to the High Street (and leaving premises around the High Street for those who *do* want to be there, such as estate agents and other professional services).

### **Target Market**

In contrast to other options for Station Yard development, this alternative proposal will retain three existing small businesses that are important to the community, in newly refurbished premises. Workshop space will fill a much-needed gap in the town, providing space for artisans and other light industrial uses.<sup>2</sup>

The upstairs units will support up to four local businesses that wish to expand, or, potentially, some from outside the area that want to relocate to the town or develop additional services within the town.

There are already several businesses in the town that have created new branches in Southwold, but the absence of suitable premises is a barrier to more businesses making the move and increasing employment in the town<sup>3</sup>. Repeatedly, studies have shown that *local* businesses employing *local* people

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<sup>2</sup> Note that B1C light industrial use is restricted to "a use which can be carried out in any residential area without detriment to the amenity of that area by reason of noise, vibration, smell, fumes, smoke, soot, ash, dust or grit". This restricts the types of businesses that may take up such units, because of the proximity of Hurren Terrace, and would preclude things like metal working, blacksmith or woodworking on a larger scale. Instead, it is thought that some of the units may be taken by businesses with small component storage requirements as well as artisans.

<sup>3</sup> This is supported by feedback from both Durrants & Chapmans Surveyors, and also from the Lowestoft & Waveney section of the Suffolk Chamber of Commerce. It is also borne out by the government's "Longitudinal Small Business Survey 2018 – SMEs" which found that 20% of all small businesses employing staff cited availability of suitable premises was an obstacle

contribute 7x more to the local economy than those businesses run remotely or as part of chains, so creating more space for local business to operate must be a priority.

### ***Businesses Supported***

In designing the refurbishment and development of Station Yard, whilst retention of existing businesses was a major driver, providing facilities needed by other businesses in the town remained a focus for the Task & Finish Group. It is anticipated that the occupants of Station Yard would be a blend of:

- existing businesses in Station Yard, in newly refurbished premises
- 'start-up' or 'moving on' micro businesses that are expanding, taking on new staff, increasing their capacity or looking for more or better space, including businesses initially established within the SouthGen Community Hub
- established businesses that may expand marginally in new accommodation
- artisans/craft workers/artists/technical seeking permanent premises for their work.

Some local businesses have already expressed interest in moving into the accommodation, including one that would use both a workshop unit and its office above. However, in this plan – in line with those developed for alternative options - there are no assumptions about specific types of businesses that would move into the office spaces. Instead, office occupancy is mostly calculated at the higher density rate of 6.96m<sup>2</sup> per person (this does not apply to the light industrial units). This methodology helps ensure that the business case does not overestimate numbers employed, by reducing the space/person to unacceptable levels.

It is difficult, with so little business or workshop accommodation provision in the town currently to use as a basis, to be certain about the new jobs likely to be created from the above, but looking at the spaces available, the following approach has been used to predict occupancy<sup>4</sup>:

*Start-ups renting business or workshop units – these would see <50% new jobs. Not all start-up business roles will be new, as many will previously have been operating as sole traders from home; some may come from SouthGen's co-working space. Note that new business start-ups are less likely to use office space in Station Yard due to the larger size of the units.*

*Moving on businesses renting business or workshop units – these could generate <30% new jobs. These businesses already exist but are expanding further and require new premises, which may enable some to recruit further.*

*Established businesses – <10% new jobs. Established businesses are unlikely to create many new jobs, as they will probably have around the profile required to operate successfully. However, a small number may use the availability of new premises to expand marginally (although note that occupation would be capped around 5 staff, given the floorspace available in the offices).*

Mapping these figures to the spaces provided and likely occupants, it is predicted there will be a minimum **3 new businesses** and around **13 new jobs** created in this scheme. In total, **34** people could be employed when at peak occupancy (assuming that businesses hire the optimum space for their current

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to growth in 2018, an increase of 3% over the previous year. The same report for non-employers found 18% with difficulties securing suitable accommodation.

<sup>4</sup> This approach was developed in early 2019 with input from the Federation of Small Businesses and with data from several government surveys, including "Longitudinal Small Business Survey 2018 – SMEs"

requirements rather than paying a premium for potential future growth), of which up to 21 are projected to be higher value roles, and, importantly, not necessarily reliant on the visitor economy. Further, 3 existing businesses will be protected in their current location, one of which will treble its staffing as a result of better premises. See the Occupancy Model at Section 7 of this report.

### ***Management and Occupation of Station Yard***

The Task & Finish Group propose that all tenancies would be on 10-year full repairing leases, which would be assignable to suitable third parties.<sup>5</sup> This gives greater security to tenants. However, longer leases mean that it could take longer to find tenants, but turnover – with the risk of periods of vacancy - would be less frequent than on shorter tenancies (provided the businesses remain solvent). It is on this basis that the income model has been developed, ie with average higher occupancy than in the Enterprise Hub, because of the income certainty for the Council that longer leases offer.

Tenants would be responsible for their own utilities and services, with the exception of general waste, which is taken as an operating cost. Workshops with industrial or hazardous waste, including the garages, would require separate contracts.

Station Yard would be operated by a managing agent, who would take care of all aspects of marketing and securing tenants, all administrative, accounting and legal paperwork associated with the tenancies. It would also be responsible for inspections, tenant liaison and conditions surveys, specifying maintenance (by tenants or council, as appropriate).

### ***Proposed Rental Rates***

The current financial models (see Section 6) are based on an average annual rental rate for offices of £22.00 per square foot, excluding VAT. This is the same rate as used for the offices proposed in the Enterprise Hub, as advised by managed workspace experts, NWeS. It is assumed that the units will be of a similar high specification to the Enterprise Hub, in order to secure this rental rate. However, in this proposal there is no managed workspace service, ie business support or infrastructure (broadband, phone, utilities, security etc) to be recovered through an additional service charge.

The office rate compares favourably with the available premises currently on the market in Southwold, being between 19% and 46% lower<sup>6</sup>. These will be purpose built units, and, although all on the first floor (and therefore not accessible), and lacking the service or infrastructure of the Enterprise Hub (showers, meeting room, landscaped outdoor space etc), it should still be possible to attract tenants at this rate, especially for this small number of units.

For workshop units, the rental will be £6 per square foot, excluding VAT, as recommended by Fennel, a respected local agent. This makes workshop space affordable for artisan businesses who typically have much lower income and fewer staff to accommodate than office-based businesses.

For the garage, an additional levy of £900 per parking space is charged, reflecting the use of the courtyard space for dedicated parking. As noted, ten other dedicated spaces are available for tenants

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<sup>5</sup> Suitable third parties would be agreed by Southwold Town Council in order to protect its investment.

<sup>6</sup> There are currently two properties that include B1 use on the market (through Fennel) currently in Southwold (at £27 and £41/sqft respectively), but both also have A1 use as retail units, forcing the price up. We have seen no B1-only property advertised on the rental market in Southwold for over a year.

to rent at £600 pa, in the proposed Millennium Car Park, so this higher onsite rate is justifiable, and is important to differentiate the higher amenity value compared to offsite.

In terms of 'per occupant' rates, based on the predicted occupancy per office, the lowest rate per office occupant per calendar month is calculated at £174, with the average at £195pcm, assuming higher density occupation levels. By comparison a single dedicated desk within the co-working space at SouthGen is expected to cost £150pcm. This means that it is reasonable to assume some of the units could function as move-on space for SouthGen incubated businesses, although their size, accommodating 5 staff in each unit, could be a constraint for some new businesses.

The above comparisons support the argument that the rental rates used in the financial models are reasonable and should be achievable.

The existing shop rental is increased by 22%. This higher rate is still 25% lower than rent on the Council's other retail premises on Station Road, and it is recommended that a further rent review is undertaken for the store, to migrate its rental to that charged for the Council's adjacent properties in Hurren Terrace.<sup>7</sup>

For the shared garage tenancy, the existing businesses will all have less floorspace, and the two smaller businesses will see a reduction in their contribution to the rent as a result, compared to that paid currently. The larger business will have a 56% reduction in space, but, because of their current rental rate, and the cost of the onsite parking spaces for the garage's operation, their rental contribution would increase by 39% +VAT.

Once Station Yard is operational, should occupancy be lower than projected, it may be possible to offer incentives such as rent-free periods, to encourage tenants to take up leases. There is capacity in the annual operational surplus to do so, but this would worsen the investment profile.

A further option exists to convert some or all of the workshop units to office use, subject to upgrading. This would improve income but would bring the site closer to the overall ethos of the Enterprise Hub, rather than its current social/community focus. Operating costs would increase somewhat as vacant properties' business rates, payable by the landlord, would be higher<sup>8</sup> and management fees, as a percentage of rental, would also increase.

Note too that, with the exception of the accessible workshops, all units are of identical size. If these were all to be repurposed as offices, there is a risk that the lack of variety in sizes could slow uptake because all have optimum occupancy of 5 staff per unit.

It would not be possible to convert the upstairs offices to workshop use; in any event this would depress income further.

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<sup>7</sup> It is recognised that there is sensitivity around the general store, and its ongoing occupancy; however, should the existing tenants choose not to continue, then the opportunity to immediately implement a comparable – but fair – rental rate, in line with other nearby Council tenancy rates, must be taken. Units nearby average around £10.65/sq ft.

<sup>8</sup> Obtaining B1 office use as well as B1 light industrial would be important here; business rates will reflect the use but can be revalued. For tenants, small business rates relief should apply across all units.

## ***Key Beneficiaries***

As well as existing businesses in Station Yard benefiting from new premises created for them, there are several other key beneficiaries:

**The local workforce**, including those in Reydon and the rural hinterland. Low-value seasonal work predominates in Southwold, with 40% of jobs in the town directly in tourism-related or retail businesses<sup>9</sup>. The creation of up to 13 new jobs will provide opportunities for those moving into affordable homes in the town, improve social mobility and help to strengthen the local economy.

**The residents of Southwold** and its community. Addressing the needs of the dwindling population is critical to ensuring the continuation of the community. Older people in particular need local services; without a critical mass of residents, services disappear and without services, fewer people wish or are able to live there. The retention of highly-valued services, such as the car garage and cycle shop in the town, is likely to be popular with many residents.

**The local environment.** Station Yard is the major brownfield site in this part of the AONB and is in need of the improvement and decontamination that this scheme would deliver.

**Local businesses in proximity to Station Yard.** Shops in the immediate vicinity will be regularly used by workers at Station Yard all year round. This will deliver additional income for businesses that are somewhat disadvantaged by being dislocated from the main High Street, with its higher footfall. Two beneficiaries in this category are the current general store, and the hotel across the road.

## **2. Project Financials & Funding**

### ***Capital Project***

The capital project for this scheme is calculated as £1,759,110 including contingency, design reserve and inflation to year end<sup>10</sup>, plus professional fees of £236,600. This gives a total capital spend of **£2,018,210**<sup>11</sup> net of VAT<sup>12</sup>, which should be reclaimable on the project. The cost plan has been developed by Currie & Brown, a leading Cost Consultancy in Norwich, and based on the RIBA 2 drawings<sup>13</sup> from Brian Haward Architects.

There is no provision for decontamination in the above costs, which has been estimated by the Task & Finish Group's QS at £225,000. This is because decontamination applies equally in this development as it does to the Enterprise Hub: the ultimate use is broadly similar, and it is the nature of the contamination, combined with end use, that will determine the remediation strategy, not the construction approach.<sup>14</sup> The level and nature of contamination is currently unknown, and to include this sum disproportionately disfavors this scheme against others, due to its cost relative to the overall cost and income.

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<sup>9</sup> ONS Business Register & Employment Survey (2017)

<sup>10</sup> 3.5% to 4Q2020 as advised by Jon Nelson, QS, Richard Uttings Associates

<sup>11</sup> Cost plan from Nick Jack, Currie & Brown, January 2020

<sup>12</sup> Advice on VAT would need to be taken, but it is assumed that it should be recoverable

<sup>13</sup> Drawings are broadly at RIBA stage 2 Concept Design (equivalent to the former RIBA Stage C) and give a reasonable basis for cost planning

<sup>14</sup> This position was confirmed by the Regulator 29/1/20

It is assumed that no VAT will be incurred in this scheme (ie VAT would be reclaimed). This means that VAT would have to be charged to tenants, which might be a disincentive to leasing of workshop units by businesses with turnover below the VAT threshold of £85k. By contrast, businesses renting the office units are likely to be registered for VAT (affording 5 FTE even at minimum wage would likely take their turnover above the VAT threshold, assuming they are operating in a business to which VAT applies).

The net cumulative position in year 30, if funded solely from sales of properties (and earmarked reserves), is projected at £792,299 ie a return on investment of 39.3%.

However, in investment terms, the NPV of this scheme, if self-funded and without any grant, would be -£944k. In other words, the income over time would not recover the initial capital investment and makes a loss of £944k, in today's money. Councillors could decide that this loss is acceptable to protect existing businesses and provide workshop space in Southwold, despite the cost implications.

### ***CCF Funding***

It is understood that the CCF grant would not be available to this scheme, given its lower levels of employment and job creation compared to the Enterprise Hub. There is also some risk that State Aid rules would apply, preventing public funding being used to support specific private businesses, to the disadvantage of local competitors. This should be explored by the Council as soon as possible.

Without a grant, funding would need to come from sales of properties. A loan greater than £375k would be impossible to service, given the annual income from rental of properties, with the majority of the floorspace rented at workspace rates. Such a loan would worsen the investment proposal, to return a loss of £1.257m, so for this reason, loan funding is not recommended.

### ***Operational Financials***

The operating budget is shown at Section 6 of this report (years 1 -12 only). All costs are exclusive of VAT, which would be charged on tenancies.

Overall, the average occupancy over the first 12 years of operation is modelled at 95%. This reflects the relative security of the longer leases, and the presence of three committed long-term tenants. If leases were to be reduced in length, occupancy rates would require revision and costs would be likely to rise as a result of periods of vacancy.

A refurbished Station Yard would make an operating profit (assuming no loan funding) of just over £32k in year 1. This is based on full occupancy of the main garage, and, by the end of the first year, 50% occupancy of the 6 workshops and 4 business units.

Operational income is steady, but low, due to the dominance of workshop spaces provided, which tend to command lower rental rates per square foot than alternative uses such as retail or business. A profit is returned annually, however, due to low operating costs.

Operational costs are improved slightly over other schemes as a result of the implementation of long repairing leases, thus passing some costs and risk on to tenants.

There are relatively few common areas in the design for which business rates will be payable – only the entrance and stairs to the first-floor offices – so once occupancy increases these overheads drop significantly.

Service costs for the third-party management company are projected to be just over £9,000 in year 1. These are industry standard and are linked in part to income.<sup>15</sup>

Waste management costs are absorbed by the landlord, with the exception of industrial and hazardous waste, which are tenants' responsibility.

### 3. Risk Analysis

Risk assessment in this section is focused on two areas: the capital project risk and operational risk. Risks will be managed by the project manager and reported regularly to the working group.

Risk	Prob.	Impact	Existing Controls/Action required/Who
Capital project risks			
Tenders come back higher than budget	L	M	- A value engineering exercise will be undertaken with the lowest tender looking at ways to source cheaper alternative materials, sub-contractors etc. This would delay the start of the project.
Capital costs overrun the budget	L	M	- Costs developed by QS at a good level of detail - 7.5% contingency on capital budget, and 7.5% design reserve, plus specific contingencies for risks - QS would have tight control of costs, and report monthly, so early warnings will be given. This will enable decisions to be taken on changing scope or reducing spend on certain items.
Construction project takes longer than planned	L	M	- Relatively straightforward construction so unlikely to arise. Experienced project manager and construction team to be brought on board, could consider phasing (but with increased costs) to eliminate impact on existing businesses.
Site issues, eg archaeology, contamination beyond that already predicted, asbestos	L	M	- Provision outside the capital budget to deal with contaminated land and asbestos. - Archaeology has the potential to have a high time impact but given the known history of the site and finds recorded locally it remains at most a medium risk.
VAT becomes liable on some/all of the capital project	L	H	- Advice to be sought re the position for this scheme but it is expected that VAT can be reclaimed (and charged on rentals). - In the <u>unlikely</u> event that VAT is incurred, the Council will have to fund the gap.
Consultation/ engagement – key stakeholders/ community not supportive	L	M	- This scheme has high levels of support from community due to its protection of popular local businesses - Only likely issue may be around high costs of proposals, but this would have to be acknowledged from the outset as price to pay to keep existing businesses.

<sup>15</sup> Management fee estimates provided by Durrants, Jan 2020

Risk	Prob.	Impact	Existing Controls/Action required/Who
Operational project risks			
Business climate changes and demand for office space or workshops falls away, resulting in vacant units. Most likely due to major recession.	L	H	<ul style="list-style-type: none"> <li>- All research to date indicates good demand for office space, with the Southwold brand helping to support this</li> <li>- Only 4 business units, so unlikely to have a major impact; could repurpose as further workshops?</li> <li>- Workshops could be repurposed (with planning consent) as retail units or as offices, at very low cost.</li> </ul>
One or more of garage co-occupants close down	M	M	<ul style="list-style-type: none"> <li>- Shortfall in lease would fall to lead tenant</li> <li>- Garage may be difficult to let as a whole to a new tenant given restrictions on space, parking etc.</li> <li>- Repurpose the garage for alternative light industrial use, again possibly a cooperative with a lead tenant.</li> </ul>
Operating income is lower than anticipated	M	M	<ul style="list-style-type: none"> <li>- Most likely to occur from slow uptake of business units due to changed market circumstances or simply longer notice periods for existing premises for established businesses.</li> <li>- Increase marketing effort and consider special offers/free trials etc</li> </ul>
Operating costs are higher than projected	L	M	<ul style="list-style-type: none"> <li>- Most likely linked to slower take-up (with Council having to cover the business rates on vacant properties).</li> <li>- Southwold Town Council to approach business rates authority for discretionary rate relief to help reduce outgoings, whilst bearing the costs for longer</li> <li>- Managing agent costs have minimum fees that would be payable even if uptake is slow; negotiate with agent.</li> </ul>
New premises occupied by existing businesses relocating in the town, but with very low job creation.	M	H	<ul style="list-style-type: none"> <li>- Policy could be to give priority or incentives to new businesses or existing businesses intending to expand significantly, thus creating new jobs.</li> </ul>

#### 4. Project Delivery

##### **Approach**

There is currently no planning or Conservation Area consent for this proposed scheme, but it is likely to be granted given the existing businesses' continued use of the site, and the fact that the scheme is, mostly, a refurbishment of the current buildings. The elevation on Blyth Road changes significantly but should overall be acceptable to the LPA's Conservation team. Change of use will be required for some units, but again, this should not be an issue.

Construction of the two large buildings will entail stripping off all materials from the frame then recladding in insulated sandwich metal panel cladding. Additional purlins will strengthen the roofs. For the two storey Blyth Road building, a first floor will be inserted into the existing metal frame<sup>16</sup>.

The work will be undertaken in one phase, with all tenants vacating the site<sup>17</sup>. There is an option for the rear building (garage) to be refurbished first, along with constructing the two new accessible workshops, with Southwold Autos moving into the Blyth Road building build of the garage. Thereafter, all three existing tenants could move into their new premises while construction of the Blyth Road building gets underway, subject to acceptable separation of the construction site from occupied buildings and members of the public. This is not included in the Cost Plan and would increase the capital project by around £70k.

### ***Timetable***

The construction period is estimated at six months. Phasing, if included, adds an extra two months<sup>18</sup>.

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<sup>16</sup> A structural engineer, John Plummer, has inspected the metal frames and they appear to be sound. It is assumed further work will be undertaken to sample the steel and to ensure foundations, for the Blyth Road building in particular, are of appropriate makeup to take the additional loading of a first floor.

<sup>17</sup> There is no provision in the capital plan's enabling costs for any compensation to businesses closed for six months – if the single build approach is taken this would need to be factored into the costs.

<sup>18</sup> Estimate from Brian Haward Architects

## 5. Capital Costs Model

Below is a summary of the capital costs, based on the Currie & Brown cost plan January 2020, with design reserve & contingency as advised by Currie & Brown. Professional fees are calculated as percentages of the construction cost plus preliminaries etc.

No VAT is included; it is assumed that VAT will be reclaimable on the capital project, with VAT being added to rental charges.

<b>Capital Cost Summary</b>	
Construction	£ 1,267,198
Preliminaries, overheads, profit	£ 210,735
Design Reserve & Contingency (7.5% each)	£ 221,690
Professional Fees	£ 236,600
Inflation to year end	£ 59,487
Enabling costs (detailed design, procurement, planning, surveys); no displacement costs for tenants	£ 22,500
	£ 2,018,210

## 6. Operating Income Yrs 1 – 12 Model

No VAT is included in these costs. The high occupancy rate (average 95% over the first 12 years) is due both to the 10 year full-repairing leases, which give certainty of income, as well as reflecting the confidence of the Task & Finish Group that the large garage will be occupied immediately and that there is strong demand for workshop space in the town.

<b>G) Refurb of existing buildings, convert front to workshops/offices. Operating Costs</b>													
<i>Existing buildings stripped, and frames re clad. Large garage at rear, 3 business co-use. New workshops x 2 at rear of site. Blyth Road building converted to 4x workshops on ground floor + 4 x offices upstairs.</i>													
<i>10 year leases, fully repairing (so once occupied, income stream guaranteed, but may be slower to fill)</i>													
<b>Alternative Proposal costs &amp; income</b>	<b>Year 1 (2021/22)</b>	<b>Year 2 (2022/23)</b>	<b>Year 3 (2023/24)</b>	<b>Year 4</b>	<b>Year 5 (2025/26)</b>	<b>Year 6 (2026/27)</b>	<b>Year 7 (2027/28)</b>	<b>Year 8 (2028/29)</b>	<b>Year 9 (2029/30)</b>	<b>Year 10 (2030/2031)</b>	<b>Year 11 (2031/32)</b>	<b>Year 12 (2032/33)</b>	<b>Long term average occupancy</b>
<b>Occupancy</b>													
Occupancy - Existing Shop	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Occupancy - Large Garage 220sqm	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	0.00%	75.00%	89.58%
Occupancy - Large Garage mid section 55sqm	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Occupancy - Large Garage cycle shop 55sqm	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Occupancy - workshops x6	37.50%	66.67%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	75.00%	95.83%	89.58%
Occupancy - offices x4	43.75%	75.00%	93.75%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	75.00%	100.00%	90.63%
													94.97%
<b>Operating Income</b>													
Existing shop rental	6,209	6,395	6,587	6,785	6,988	7,198	7,414	7,636	7,865	8,101	8,344	8,595	
Rental (garage)	14,203	14,629	15,068	15,520	15,986	16,465	16,959	17,468	17,992	18,532		14,745	
Rental (Finch's motors)	3,551	3,657	3,767	3,880	3,996	4,116	4,240	4,367	4,498	4,633	4,772	4,915	
Rental (Cycle hire & repair)	3,551	3,657	3,767	3,880	3,996	4,116	4,240	4,367	4,498	4,633	4,772	4,915	
Workshops x6	4,784	8,760	13,534	13,940	14,358	14,789	15,233	15,690	16,160	16,645	12,858	16,923	
Offices x 4	15,493	27,357	35,222	38,697	39,858	41,054	42,285	43,554	44,861	46,206	35,694	49,020	
Service waiting bay income 6 bays	5,400	5,562	5,729	5,901	6,078	6,260	6,448	6,641	6,841	7,046	7,257	7,475	
Parking income (Millennium Field, 10 dedicated spaces)	2,400	4,920	6,304	6,461	6,623	6,788	6,958	7,132	7,310	7,493	7,681	7,873	
<b>Operating income</b>	<b>55,591</b>	<b>74,938</b>	<b>89,978</b>	<b>82,702</b>	<b>85,183</b>	<b>100,787</b>	<b>103,777</b>	<b>106,855</b>	<b>110,025</b>	<b>113,290</b>	<b>81,379</b>	<b>114,461</b>	
<b>Operating Costs</b>													
Miscellaneous Expenses incl legal													
Maintenance incl waste management	(1,600)	(1,640)	(1,681)	(1,723)	(6,766)	(1,810)	(1,856)	(1,902)	(1,949)	(6,998)	(3,008)	(3,083)	
Marketing, inspections, dilapidations etc (3rd party £1k)	(4,000)	(2,400)	(2,460)	(2,522)	(3,200)	(3,280)	(3,362)	(3,446)	(3,532)	(5,121)	(6,249)	(5,527)	
Management costs (3rd party 10% rental income)	(4,779)	(6,446)	(7,795)	(8,270)	(8,518)	(8,774)	(9,037)	(9,308)	(9,587)	(9,875)	(6,644)	(9,911)	
Property/landlords' insurances	(2,000)	(2,050)	(2,101)	(2,154)	(2,208)	(2,263)	(2,319)	(2,377)	(2,437)	(2,498)	(2,560)	(2,624)	
Contribution to Millennium Field car park (10% income)	(540)	(556)	(573)	(590)	(608)	(626)	(645)	(664)	(684)	(705)	(726)	(747)	
Business rates on communal areas	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	(2,614)	
Business rates on vacant properties	(7,795)	(5,333)	(926)								(9,816)	(204)	
<b>Operating costs</b>	<b>(23,328)</b>	<b>(21,038)</b>	<b>(18,149)</b>	<b>(17,872)</b>	<b>(23,913)</b>	<b>(19,366)</b>	<b>(19,832)</b>	<b>(20,311)</b>	<b>(20,804)</b>	<b>(27,810)</b>	<b>(31,616)</b>	<b>(24,706)</b>	
<b>Annual Gross Profit Managed Workspace</b>	<b>32,263</b>	<b>53,900</b>	<b>71,829</b>	<b>64,830</b>	<b>61,270</b>	<b>81,421</b>	<b>83,944</b>	<b>86,544</b>	<b>89,222</b>	<b>85,480</b>	<b>49,763</b>	<b>89,755</b>	

## 7. Occupancy Model

This utilises the same model for estimating occupancy as the Enterprise Hub business plan.

<b>G) Refurb of existing buildings, convert front to workshops/offices. Offices mostly AT HIGHER DENSITY, ie 6.96sqm per person</b>																	
<b>Projected Occupancy Rates, New Jobs</b>																	
Existing buildings stripped, and frames reclud. Large garage at rear, 3 business co-use. New workshops x 2 at rear of site. Blyth Road building converted to 4x workshops on ground floor + 4 x offices upstairs.																	
Building/ Flr	Unit	Total area m <sup>2</sup>	work space m <sup>2</sup>	Likely Use	Occupancy	New Jobs	Higher Value	Tenant type	Location	Annual Rent	Annual S/	Total	Monthly	Cost per occupant/ PCM	Cost per occupant/ per weekday	Cost per occupant per day	
1G	1	44.00	36.52	start up	2.0	1.0	1	workshop	building 1 ground floor, Blyth Road frontage	£2,841	£0	£2,841	£237	£118	£5	£4	
1G	2	44.00	36.52	established	3.0	0.0	1	workshop	building 1 ground floor, Blyth Road frontage	£2,841	£0	£2,841	£237	£79	£4	£3	
1G	3	44.00	36.52	move on	2.0	1.0	1	workshop	building 1 ground floor, Blyth Road frontage	£2,841	£0	£2,841	£237	£118	£5	£4	
1G	3	44.00	36.52	established	1.0	1.0	1	workshop	building 1 ground floor, Blyth Road frontage	£2,841	£0	£2,841	£237	£237	£11	£8	
1F	4	44.00	36.52	start up	4.0	2.0	4	office, standard	building 1 first floor, Blyth Road frontage	£10,416	£0	£10,416	£868	£217	£10	£7	
1F	5	44.00	36.52	move on	5.0	2.0	2	office, standard	building 1 first floor, Blyth Road frontage	£10,416	£0	£10,416	£868	£174	£8	£6	
1F	6	44.00	36.52	move on	5.0	2.0	4	office, standard	building 1 first floor, Blyth Road frontage	£10,416	£0	£10,416	£868	£174	£8	£6	
1F	7	44.00	36.52	established	4.0	0.0	3	office, lower density	building 1 first floor, Blyth Road frontage	£10,416	£0	£10,416	£868	£217	£10	£7	
2G}	8	220.00	205.00	established	3.0	2.0	2	garage business	large shared garage, majority area with pit, shared tenancy	£14,203	£5,400	£19,603	£1,634	£545	£25	£18	
2G}	9	55.00	55.00	established	1.0	0.0	1	garage business	large shared garage at rear, shared tenancy	£3,551	£0	£3,551	£296	£296	£14	£10	
2G}	10	55.00	55.00	established	1.0	0.0	0	cycle repair & hire	large shared garage at rear, shared tenancy	£3,551	£0	£3,551	£296	£296	£14	£10	
3G	11	24.00	19.92	start up	1.0	1.0	0	workshop	accessible workshop to rear of site	£1,549	£0	£1,549	£129	£129	£6	£4	
3G	12	24.00	19.92	move on	2.0	1.0	1	workshop	accessible workshop to rear of site	£1,549	£0	£1,549	£129	£65	£3	£2	
		730.00	647.00		34	13	21										
					14			average occupancy		<b>Average</b>	£5,956	£415	£6,371	£531	£205	£9	£7
					3			new businesses									
					4			existing business protected									
<b>Notes</b>													Southgen dedicated desk is £150pcm				
													Red = office space cheaper per person than SouthGen				
1. Business use: three things affect occupancy level: area of space, type of business, individual preference. Most businesses go for the maximum density feasible.													Green = office space within 10% of Southgen				
2. Business use: two densities apply: 6.96m <sup>2</sup> per person (ideal for modern business use = 75sqft 'standard'), 9.29m <sup>2</sup> (management preference, or businesses with lots of equipment 'lower density')													Yellow = within 15% of SouthGen				
3. The tenant types are categorised as 'office', ie business/enterprise use; 'workshop' - light industrial use; 'garage' - auto repair/MOT; 'cycle repair & hire'																	
4. Use is categorised as start up = first step into office/workshop space, move on = a growing business expanding, established = a relocater, who may grow marginally.																	
5. Each use has different 'new job' multiplier when applied to business use, not retail. Start up <50%, move on =<30% and established =<10%.																	
6. Start-up businesses are highlighted in blue text																	
7. Start-up office businesses are likely to be mostly higher value jobs, moving on may have 10% non-higher value, and established 10% too. This is on the assumption that larger businesses may employ up to one member of staff in an office admin/support role on or close to minimum wage.																	
8. Workshops are likely to have fewer occupants and lower value jobs than offices																	