Rothwell & Desborough Urban Extension Area Action Plan – Supporting Information on Market Delivery

Prepared by

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CONTENTS

PAGE NUMBER

1. INTRODUCTION

Lambert Smith Hampton have been instructed by Kettering Borough Council to provide consultancy advice on the potential re-assessment of the employment location at Desborough. In particular comment is to be provided on the implications of reducing or removing the level of B8 at Desborough and the impact this would have upon the delivery of the remainder of the employment proposed for the town.

We have been specifically requested to comment on the following:-

1. The impact that reducing or removing the B8 would have on the deliverability of a 25 hectare (61.77 acres) employment site in Desborough.
2. The impact that reducing or removing the B8 would have specifically on the level of B1 and B2 provided and its deliverability.
3. The impact the reduction in B8 at Desborough would have upon the Borough employment allocation. Would it need to be replaced elsewhere within the Borough?
4. The impact, if any, that reducing the level of B8 at Desborough will have upon deliverability of the employment allocation at Rothwell.
5. Other implications or scenarios that need to be considered?

2. THE MARKET

It is against the market background that the deliverability issues associated with re-assessing the employment allocation at Desborough will need to be considered. We therefore set out below a brief market summary.

SUPPLY / DEMAND

Over the last five years or so the market has generally experienced a lack of supply with strong levels of demand and significant increases in freehold values for residential and commercial property.

The majority of the demand has been on a freehold rather than leasehold basis. More recently there has been a slight pick up in the level of leasehold demand however 75% of those enquiries being received in the market place continue to be on a freehold basis.

The number of transactions has been restricted by the levels of supply. The shortage in supply has led to strong competition in the market place between developers and owner occupiers when opportunities have arisen. It has particularly been difficult for owner occupiers to secure development sites. The pressure for B8 on sites has also led to many employment sites being developed for that purpose which would have been equally or indeed more suitable for industrial / office development. There has been increasing pressure for sites to be promoted through the planning process that perhaps would normally be regarded by the market as fairly secondary.

ENQUIRIES

The level of industrial enquiries has been relatively steady over a long period of time. Agents continue to receive good levels of demand from this market sector although industrial occupiers find it difficult to secure suitable properties / sites.

The level of B8 demand has increased year on year and is a reflection of the strength in this market and the improving location for this market sector. Office demand has been good. However it is important to appreciate that much of this demand is small scale, has been based on a strong freehold market with small lot sizes available which are sought by investors and there has been a relatively high level of 'latent demand' as a result of a lack of new development in the county for a number of years. Unusually in the market place there is currently a number of larger scale regional enquiries that around 1,858 sq m (20,000 sq ft) for office premises. We would not regard this as a trend as this area is not recognized as an office location and there would have to be a significant 'step change' for larger scale regional / national office occupiers to be attracted to the area.

Over the last 15 years or so some 75% of enquiries received for Kettering have been from companies already based in the town. However over the last three or four years this has fallen to around 50% with a significant increase in regional based enquiries. Kettering, and in particular the A14, has become the focus of many regionally based enquiries. At present the level of national based enquiries being received for the area are relatively insignificant outside of the strategic B8 sector.

Of the enquiries received approximately 20% are for offices with the majority being for between 92 sq m (1,000 sq ft) and 325 sq m (3,500 sq ft). Of the 80% of enquiries received for the industrial / B8 sector in terms of the number of enquiries 70% are for industrial and 30% for warehousing. However in terms of square footage some 60% would be for B8 and 40% for industrial. The majority of the industrial demand is for unit sizes of less than 1,393 sq m (15,000 sq ft).

Much of the industrial demand is for development land as many general industrial companies have specific occupational requirements which are often not met by existing available built stock and the cost of alterations can be relatively high.

There is a significant difference between strategic B8 demand which generally relates to unit sizes of 23,225 sq m (250,000 sq ft) upwards and regional warehouse demand which can relate to unit sizes between 464 sq m (5,000 sq ft) – 11,612 sq m (125,000 sq ft). There are many enquiries received for small scale warehouse units and business operations that include significant elements of warehousing.

DESBOROUGH

The main commercial site allocated in the local plan extending to approximately 20.63 hectares (51 acres) remained undeveloped for a number of years. When CJC Development Company Limited decided to enter into a partnership arrangement with a commercial developer there were very strong levels of interest received in 2005 from the developer market.

The site obtained outline planning in 2004 for 65,866 sq m (709,000 sq ft). A large scale distribution warehouse of 44,034 sq m (474,000 sq ft) is currently under construction due to be completed in January 2008 with a pre-letting to Great Bear Distribution Limited. The pub site is also under offer and design and build packages are currently being discussed with a number of mainly industrial occupiers ranging from 1,858 sq m (20,000 sq ft) through to 5,574 sq m (60,000 sq ft). It has been apparent through the marketing that the site has appealed to the industrial market sector as the developer has been willing to offer unusually large site areas and been willing to provide bespoke buildings to meet particular occupier requirements.

Values have been very much determined by individual building specifications however generally values on a leasehold and freehold basis have been marginally lower than values appropriate for competing schemes in surrounding towns.

The main reason why there was such strong developer interest in 2005 is considered to be due to a general lack of supply in the market place. Developers were having difficulty obtaining sites, there was a general lack of availability in the market place and there was a significant potential for B8 as part of the overall planning.

Developers considered the site as being somewhat secondary compared to other sites based on established estates such as Kettering Venture Park, or emerging sites along the A14 for example. The developers regarded there being very much a ‘window of opportunity’ and their marketing strategies were on the basis that the site would need to be developed and fully sold / let within a period of say four years before better quality sites in the Borough and North Northants become available.

General Market Trends

Offices

In 2005 the stock in Kettering was 78,000 sq m (839,612 sq ft), which represents a doubling of the stock in 15 years. The office market over recent years has been stimulated by significant demand for small scale freehold as a result of the popularity of Self Invested Personal Plan’s which may have distorted recent take up levels. To achieve demand forecasts it will be important to attract regional demand, particularly for units above 464 sq m (5,000 sq ft). Good quality sites need to be made available and a certain amount of speculative development to be undertaken which will require a supply to be available in excess of the demand forecasts. There needs to be a significant ‘step change’ in the perception of the area for larger scale regional and national office demand to be obtained.

In Kettering the best quality sites would be regarded as being Kettering Venture Park and other prominent out of town sites with good links to the A14 and the town centre. There is also the potential for development adjacent to the railway station.

INDUSTRIAL

In Kettering industrial stock in 2006 was approximately 447,778 sq m (4,820,000 sq ft). Agents continue to receive good levels of demand from the manufacturing sector with take up figures constrained by a lack of supply.

Much of this sector has experienced poor trading conditions over recent years but there a number of successful manufacturing companies who may be forced to re-locate out of the area if new supply can not be made available.

There is limited immediate supply and it is important that sites are made available to the manufacturing sector particularly to those occupiers wishing to develop their own sites. Developers have generally preferred to target the B8 market, with manufacturers requiring large site areas generally not maximizing site value. Manufacturing operators tend to have very specific locational requirements often associated with workforce needs. As such there needs to be a good supply of sites available.

It is envisaged there will be a significant degree of obsolescence within the industrial stock over the next 20 years.

Kettering continues to be the focus of much of the regional demand which is often A14 related. Delays in dealing with the necessary improvements to the A14 do provide a major constraint to the immediate industrial 'offer' of the town. There is the potential to attract some high profile occupiers to the town over the next few years however deliverable supply of the best quality sites must be a major focus for delivery bodies. At present one of the biggest challenges is to stop companies relocating out of the town as a result of immediate supply limitations.

WAREHOUSING

Distribution accounts for a third of Kettering's total stock at around 232,250 sq m (2,500,000 sq ft), with the regions central location, potential introduction of 'fuel taxes,' working time directive and the tachograph, it is anticipated that the trend for substantial demand in strategic warehousing will continue and is more than just a short term market cycle.

Large scale warehousing may have an important role to provide in connection with the delivery of the office forecasts. There is a trend based forecast of 630,300 sq m (7 million sq ft) of warehousing within the county which with an office content of 5% would produce over 325,150 sq m (3.5 million sq ft) of office space which compares favorably with an office total forecast of 464,500 sq m (5 million sq ft). (Copela 06)

Whilst strategic warehousing is a major occupier of development land and has been responsible for creating a lot of the county's employment opportunities, there is a need also to provide smaller scale warehouse facilities.

In Kettering sites along the A14 at junctions 7 to 10 will come under increasing pressure for strategic distribution development. Such emerging sites have significant constraints to overcome but some B8 provision will provide an opportunity in the medium term for quality sites to be made available for high quality offices and industrial as part of mixed use schemes.

3. Desborough Issues

1. **The impact of reducing or removing the B8 would have on the deliverability over 25 hectare employment site in Desborough**

Assuming a 15% reduction in site area to reflect a gross to net area and a 40% site coverage it is envisaged that approximately 85,000 sq m (915,000 sq ft) could be constructed on a site in Desborough. It is not clear to what extent ‘a site’ will have constraints in terms of ground conditions, environmental / archeological / ecological concerns, infrastructure and in particular highway constraints. However as a general ‘rule of thumb’ it is envisaged that it would cost approximately £150,000 per gross acre to service a site. Therefore the servicing cost will be approaching £10million and potentially higher if there are other constraints. The majority of this money would be spent very early on in the development program.

It is envisaged that through the planning process the developer will also be required to contribute towards the provision of ‘on and off’ site infrastructure and facilities. In undertaking development appraisal work we are currently allowing for £67 per sq m to cover such costs. This is in connection with the commercial and for housing £18,000 per house. These allowances have been derived from the Milton Keynes approach. For Desborough this cost could be in excess of £5million just on the commercial element.

Depending upon the site concerned the developer may already own the site or have an option agreement in place for its purchase. The level of any purchase price / option fee will clearly vary from site to site and the exact terms would effect a sites sensitivity towards limitations / constraints whether they be by way of planning obligations / constraints, development costs, changes in market conditions etc.

What is clear is that to deliver such a large volume of development on a site with such a considerable upfront cost a developer is likely to require a certain level or pre-sales / lettings to have been agreed, to at least part finance this upfront cost.

For a site of 25 hectares (61.77 acres) it is envisaged that at least 23,225 sq m (250,000 sq ft) would need to be under contract for sale / lease. This would not be speculatively developed. To deliver this upfront we are of the opinion that B8 planning consent will be required for at least a third of the Desborough site otherwise the site would not be deliverable in the market place. This would need to be for national strategic B8.

It is currently proposed that 28% of the site would be for B1 / B2 and the remaining 72% for B8. Reducing the B8 provision below this level would extend the development period beyond seven years and make it less likely that the stated objectives in the preferred options paper would be met to the same extent by the developer. With the extended development period and the likelihood of the profit return of the developer being reduced as a result of reduced levels of B8 it is inevitable the developers ability to meet the stated objectives in the preferred options document would be reduced.

In summary removing the B8 would in our view make the delivery of the site very unlikely bearing in mind an anticipated project cost in excess of £50 million. Reducing the B8 element would seriously effect the viability of the site and its delivery. To deliver a site of this scale national strategic B8 is likely to be required for at least a third of the site and probably half.

There has been no differential made between national strategic B8 which would generally be for unit sizes above 23,225 sq m (250,000 sq ft) and smaller scale regional B8 which would generally be for unit sizes of less than 11,612 sq m (125,000 sq ft) and occasionally for unit sizes as low as 929 sq m (10,000 sq ft).

Many occupiers have uses that do not neatly necessarily fit between B1C, B2 or B8. Removing B8 altogether even for unit sizes which would be relatively small may effect the developers ability to attract occupiers and fund development. Proposals to reduce the B8 should take into account the potential for some of the B8 allocation to be restricted to regional smaller scale B8 units.

In summary for the Desborough site we consider that a least a third of the site will need to be available for national strategic B8 amounting to 28,050 sq m (302,000 sq ft) potentially as a single building. In addition smaller scale regional B8 demand up to 14,450 sq m (155,500 sq ft) should be provided in unit sizes of less than 4,645 sq m (50,000 sq ft). This would be the minimum and we would recommend at least 50% site coverage for B8 at Desborough.

2. THE IMPACT THAT REDUCING OR REMOVING THE B8 WOULD HAVE SPECIFICALLY ON THE LEVEL ON B1 AND B2 PROVIDED AND ITS DELIVERABILITY.

Without large scale take up of B8 it will take a significant period of time to sale / let over 85,000 sq m (915,000 sq ft) on the Desborough site. If the B8 was removed then it is unlikely the site would be developed and if reduced the delivery of the B1 / B2 would be affected. The reduction in the level of B8 would extend the project period possibly to more than 20 years compared with a seven year period which may be achievable with the proposed B8.

Deliverability would also be affected by the fact that the developer would be less likely to speculatively develop on site. Within the smaller unit sizes of less than 1,394 sq m (15,000 sq ft) if there is no speculative development it would be unlikely that sales / lettings would be achieved to occupiers.

Developers generally will also be less likely to want to speculatively develop in the future in view of the current proposals whereby vacant commercial buildings will be subject to the payment of full business rates.

The removing of the B8 would effectively mean that there would not be funds available to kick start the development through a large scale sale / pre-let. The likelihood of attracting occupiers to the site will be significantly increased once the infrastructure has been installed and 'oven ready' sites are available to occupiers. It is also important that the developer would make sites available for purchase by industrial occupiers that they could then develop themselves.

Such occupiers would not be well placed to actually service a site and install general infrastructure. A reduction in he proposed B8 would therefore affect delivery of the B1 / B2

3. **THE IMPACT THAT A REDUCTION IN B8 AT DESBOROUGH WOULD HAVE UPON THE BOROUGH EMPLOYMENT ALLOCATIONS. WOULD IT NEED TO BE REPLACED ELSEWHERE WITHIN THE BOROUGH?**

As identified earlier within this report the Northamptonshire Commercial Property and Employment Land Assessment indicates that within the county from 2001 through to 2021 additional B8 space for 7 million sq m would be required based on a growth trend between 1998/2004. We would emphasis this growth trend was effected by limitations in supply. It is important to ensure that good quality sites are available within the Borough for industrial and office development. An insufficient supply of B8 land will place pressures for such uses on sites that are better suited for industrial / office development.

It is important to also take into account the contribution that B8 development will make to the office jobs secured in the town and also will be particularly important in 'kick starting' many larger scale development sites.

We would strongly recommend that any lost B8 allocation at Desborough would need to be replaced elsewhere within the Borough. Serious consideration may need to be given to whether other B8 allocations relate to large scale national strategic distribution or smaller scale regional distribution. This has very significant implications on the size of unit and its impact in planning terms.

4. The impact, if any, that reducing the level of B8 at Desborough will have upon deliverability of the employment allocation at Rothwell.

Reducing or removing the B8 element at Desborough will effect the delivery of the land at Rothwell. It may be that there could be two substantial areas of employment land available to the market, one at Rothwell and one at Desborough, which would be in direct competition with one another. It could significantly prejudice the viability and deliverability of both of the sites.

There could be a situation where there would be competition between the two sites which could be promoted by different developers. This could effect deliverability and development program. However if both sites were held by the same developer then delivery of one or both of the two locations could be effected by an even greater extent. It may be that the project cost in driving forward both sites would significantly prejudice the delivery of one of the sites as it is likely that a single developer will not commit to develop both sites at the same time.

5. Are there any other implications or scenarios that need to be considered?

As identified earlier in this report Magnetic Park received such a strong level of interest from developers and has since received good levels of demand from all market sector occupiers as a result of prevailing market conditions. The developers generally recognized that it is a secondary location and the strength of their demand was a reflection of the fact that there was no supply available in the market place. The key to whether they were able to successfully deliver the site in the market place was based in the assumption that they had a limited period in which to market and develop the site before better quality sites became available.

It is considered that Rothwell and Desborough will still be considered secondary in the market place to other sites that are at different stages in the planning process both within Kettering and within the county as a whole. If the employment elements of Rothwell and Desborough are to be successfully delivered it will be important for the developments to move forward very quickly.

The sites at Rothwell and Desborough may provide the opportunity for general and special industrial uses to be specifically targeted through the marketing. This would cover a variety of uses which by the nature of the operation or materials used would effect the amenity of nearby residential. Such uses could include heavy engineering or manufacturing processes, enamellers, welders and steel fabricators for example. These uses may not be particularly compatible with housing and therefore the proposed splitting of the residential and commercial may assist in delivery. The developers are likely to not generate such high returns from such development targeting industrial uses and therefore the level of planning gain required may need to be carefully considered to ensure that delivery is encouraged.

There is no B8 proposed at Rothwell. This would affect its deliverability and we recommend that an element of B8 be incorporated perhaps limited to regional B8 demand. Rothwell is proposed to be for a site of 11 hectares which is likely to provide 38,553 sq m (415,000 sq ft) of commercial development. We would recommend a B8 element 14,499 sq m (156,073 sq ft) limited to unit sizes of less than 4,645 sq m (50,000 sq ft) be considered.

4. SUMMARY

We hope our comments are helpful and we would be happy to discuss the contents of this brief report further,

Yours sincerely

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