

**Cabinet**

**5 November 2013**

## **Report of the Leader**

### **Delivering development investment**

#### **Purpose**

1. As set out in the initial report for this item, the city is punching below its weight on attracting investment to the city, with a key constraint being a lack of developed commercial premises and housing to meet the demand of new businesses and residents seeking to locate in York.
2. This report sets out a new approach to delivering the spatial and infrastructure requirements dictated by the city's economic ambitions, and seeks an in-principle decision by members as to exploring this new model against a full options appraisal to be brought back to Cabinet in the New Year.
3. The report also suggests that the Council make an in principle commitment to involvement at the international property event MIPIM 2014 to carry forward and build on contacts and relationships developed at MIPIM 2013, but more importantly to generate further leads for investment to connect into development opportunities that are likely to emerge from the Local Plan.

#### **Background**

4. In order to enable the city to meet its ambitious economic growth targets, the Council and partners across the city are working to facilitate development across the city to provide the space for the city to grow. To date, these efforts have culminated in progress being made with sites like Terry's and British Sugar.
5. Such brownfield sites are only part of the solution. Looking to the future, the Council has produced an ambitious draft local plan that opens up preferred options of 61 housing sites and 21 employment sites, and developable land. The ambition of the local plan is to

meet the significant demand which includes up to 1,250 homes per annum, and 164,000m<sup>2</sup> commercial space by 2030.

6. On the latter, there is a significant unmet demand for the provision of B1a office space, particularly in the city centre, where less than 30% of all supply is of Grade A quality. A recent office stock report mapping all available office supply in the city revealed that there is a severe lack of Grade A office stock, particularly in the city centre but across the city more generally.<sup>1</sup>
7. The local plan, however, is only part of the solution; development depends fundamentally on the ability to make a return and of course, viability of development. Whilst some development can happen through the market alone, there are a number of the city's most strategic sites and projects that will depend on the ability of the city to innovatively create the right conditions for these developments.

### ***Challenges to development***

8. In the current financial context, the development which the city seeks can be complex to bring forward, and as such, can take significantly longer than what the city currently requires.
9. In the context of residential development, although there is sufficient demonstration of demand for housing across a range of types, the build out rate for these developments is likely to be significantly longer than what the city requires to meet the demands of existing residents awaiting their first or next step on the housing ladder.
10. With regard to provision of commercial premises, there is no real appetite in the market for the kind of speculative office development that is more likely to be seen in major cities like Leeds and Manchester – despite significant unmet demand – both from indigenous investors and potential inward investors. This is evidenced by the Centre for Cities, *Making the Grade* report from May 2012.<sup>2</sup>
11. The experience of Hiscox Ltd coming to the city exemplified the potential for further such inward investment from high quality employment providers, as well as the reaction of investors like

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<sup>1</sup> City of York Office Stock Reports (May 2013): <http://www.yorkmeansbusiness.co.uk/property/commercial-property-reports.aspx>.

<sup>2</sup> Sarling, J. et. al.(2012) *Making the Grade: the impact of office development on employment and city economies*. Centre for Cities.

Hiscox who commented several occasions how surprised they were at the lack of available high quality office space. If the city is to attract more inward investment, development of commercial premises is vital.

12. At the same time as there is a clear mismatch between the demand for development and the supply, there is an increasing risk to the Council's own resources for facilitating development investment. In fact, the resources provided by the Council to facilitate such development are at risk given the current revenue position of the local authority, as in the case of local authorities across the country. It is likely that the non-statutory functions of economic development, pre-planning support, and major projects team capacity will no longer be financially viable to provide following 2014/15 if a boost in local revenue is achieved – either through Council tax or business rates (both of which require further development).

### ***Understanding the market for investment in development***

13. The Council, working with private sector partners, has been undertaking soft market testing of the city's development propositions over the past year.
14. The city's delegation to MIPIM 2013 provided an initial and critical opportunity to engage with potential investors, developer partners and some end users to test interest in the city's key and strategic sites, including York Central and emerging Local Plan opportunities. At the event, the delegation targeted around 75 firms and organisations in the target audiences of investors, developers and end users; from this, 35 genuine leads were generated with interest in further engagement following the event.
15. Since this initial engagement at MIPIM, the Council's City and Environment Services and Economic Development teams have been following up with the leads generated at MIPIM and from contacts made from the event. The primary obstacles to investing in development generally that the investor audience identified included:
  - Generally, a greater competition in the market for development finance;
  - Insufficient capacity or flexibility of local authorities and/or landowners to respond to investment opportunities;

- Lack of sufficient infrastructure, which is critical to ensuring the viability of development in the current, much more competitive environment for development finance.
  - A decline in appetite for speculative development in the current financial context – as clear an evidence of demand is vital to bringing forward investment
16. The authority has a strategic decision as to how proactive it wishes to be in working with partners to overcome the above barriers. Should the authority wish to take a more proactive approach to facilitating development in the city, this report proposes a set of objectives for the Council to consider working to in developing a new approach, as well as the potential market models the Council may consider using in pursuing these objectives.

### ***Market models***

17. The objectives required for any successful development model are:
- **Critical mass of investment:** the model will need to provide the city a means to assembling sufficient levels of investment to make progress in providing the infrastructure and making viable market-led development of the city's key sites.
  - **Pace:** the model will need to accelerate the pace of the natural rate of market development that the city has seen to date if it is to meet its economic growth ambitions and indeed if it is to ensure that the city remains "open for business" and for residents to find a home.
  - **Return on investment:** most importantly, in order to make development work from a public and private sector perspective, the model needs to be able to make development in the city provide sufficient return on investment – both from a financial perspective, but also from a socioeconomic perspective.
18. The market testing that Council teams have undertaken would suggest that an effective approach to achieving all three of these objectives is to create an investment vehicle, either a joint venture or asset-backed vehicle or similar model, that will allow the Council and other strategic partners to jointly invest and procure a strategic investor partner.

19. This type of investment model has been used across a range of cities and local authorities across the UK, including:
- **Bournemouth:** The Bournemouth Development Company is a public-private partnership between Bournemouth Borough Council and Morgan Sindall Investments Ltd, established to deliver much of Bournemouth's Town Centre Vision through the development of Council-owned land. The company is owned jointly (50/50) by the Council and Morgan Sindall Investments Ltd and will be developing a number of sites around the Town Centre for a variety of uses, in line with the Council's planning policy. Planning permission has been granted for the first sites with work expected to start imminently.
  - **Croydon:** CCURV (Croydon Council Urban Regeneration Vehicle) is one of the best known and oft cited examples of a Local Asset Backed Vehicle (LABV). CCURV is a 28-year exclusive partnership between Croydon Council and John Laing to regenerate a range of key sites across Croydon borough. John Laing was appointed as Croydon's partner in November 2008. CCURV was set up as a 50:50 partnership, with Croydon Council investing land in the URV and with John Laing investing equity and providing development expertise. Initially CCURV is intended to deliver a £450m regeneration of significant sites across Croydon town centre including the new 240,000sqft council offices and the Waddon leisure and housing development (both of which are now underway).
  - **Oxford:** Oxford City Council formed a joint venture with Grosvenor Developments Limited on 31 October 2011. The partnership combines the Council's land and vision for the site with Grosvenor's funding capacity and expertise. The project team, made up of equal representation from Grosvenor and the Council, is now working together on master planning, community facilities, design and access. The Barton Area Action Plan was adopted in December 2012 and start on site is planned for 2013.
20. Such a model would see the investment partners, including the Council, structuring a portfolio of projects and assets in a way that would enable all parties to generate a return – either through capital receipts or revenue generation depending on the return on investment sought – from their share of the investment.

21. This model would most likely take the form of an **asset-backed vehicle** of some shape or form, which would see the authority and partners assembling a package of land, other assets, resources (such as staffing resource) and/or cash investment to create a critical mass of investment which would be used to kick-start development on identified priority sites and projects.
22. The vehicle would be independent from the Council, although as a principal investor, the Council would have a seat in the governance structure or board, and in some models, a veto over any major strategic decision on the delivery of agreed outcomes.
23. The principal benefit to an investment vehicle of this nature is the opportunity it offers for assembling investment from a variety of sources and leveraging that investment effectively. Specifically, the model will enable the city to match investment in against a range of public and private sector investment sources including but not limited to:
  - **Leeds City Region Revolving Investment Fund** – a Fund that is invested in by CYC and other city region partners to create a city region fund for economic infrastructure. The Fund is driven by commercial objectives, and hence projects will be expected to generate a return for investments made, but given that the projects identified for JV investment are priorities for city of York, they will have been flagged as priorities in the overall city region investment plan and prospectus – and thus will have a greater likelihood of being successful.
  - **European Regional Development Funding – 2014-2020** – working through respective LEPs, the city will have the opportunity to match investments made in projects with European funding depending on the extent to which these projects align with European objectives and LEP priorities within those objectives.
  - **Other European sources of funding** – European Investment Bank provides further finance options that may be considered for extending the reach of the initial investment made by invested partners.
24. At the same time, the authority would be able to strategically use the proceeds of planning gain and Community Infrastructure Levy (CIL) to contribute to the overall strategy developed with investment partners and landowners.

25. Beyond the project-specific potential to match funding, there is the option of “thinking bigger” and considering the development of an Urban Development Fund either at regional or multi-authority level (perhaps along the ECML authority partnership). Such a fund would see the city and other local authorities in the sub-region or region **pooling investment under JESSICA** – creating a kind of super-fund whereby the model’s bang for buck is larger than the original investment potential of a city-specific fund.
26. Ultimately, as a private sector-facing vehicle and a model which is run independently of the Council, this model is most likely to attract this additional investment. Soft market testing to date suggests that the investment market prefers to invest where decisions can be taken quickly and priorities maintained in the strict way that a local authority is not able, given the wide variety of stakeholders and remits to which the authority is accountable.

### **Timetable for taking forward the preferred option**

27. In order to progress the development of a proactive model for attracting investment to development in the city, the following next steps are proposed for approval by Cabinet members (timetable to subject to confirmation):
  - **Early 2014:** Options appraisal:
    - Further market testing via engagement with potential investor partners and strategic landowners
    - Liaison with other local authorities that have engaged similar models
    - Cabinet to receive report which
      - Presents results of market testing and research of case studies
      - Recommends a model and business case for proposed model
  - **March 2014:** MIPIM 2014 – CYC and partners to further market test the model for financing development amongst international investors and developers

- **By Spring 2014:** Development of the proposed model and tendering for potential investor partner
  - **Autumn 2014:** Cabinet to receive recommendations on procurement of investor partner
28. Members are asked to consider involvement in MIPIM 2014 as an opportunity to not only promote the city's development opportunities, building on the experience of MIPIM 2013, but also to test the model selected by Cabinet.
29. Last year's representation at MIPIM produced 75 long list of leads, and circa 30 leads that have been fostered over the summer since the event. These contacts are now being brought together with city of York partners and local strategic landowners to consider opportunities to work together to key residential and commercial sites.
30. The 2014 MIPIM event would offer the city the opportunity to further build contacts and leads for the sites emerging from the Local Plan, but also to generate interest in the emerging new model for development investment.

## **Benefits**

31. The benefits of the model extend across the full economic, social and environmental conditions of the city:
- The new model will enable the city to **increase the supply of Grade A office stock** – both for larger employers that seek quality premises as inward investors, and growing indigenous businesses that are currently constrained by the lack of grow-on space
  - As a result, the new model should enable a **significant increase in the city's employment** – particularly initially at the high value end, but which through supply chain impacts, will help to generate further employment throughout the full range of skills opportunities. As a result, the new model will help create **new jobs** at both the graduate end of the spectrum to the lower skilled end – including significant increases to the services industry resulting from the supply chain impacts of new employment in the city.



- In addition, the GVA generated from the new model – initially from the simple investment of the new model into the city, but indirectly from the employment created – will provide a further significant boost to the local economy and prosperity.
- The proposed investment in housing sites will provide a **major increase in the number, locations and range of housing options** available to residents. The increased supply should then lead to a decrease in average house prices in the city.

## Recommendations

32. It is recommended that Cabinet:

- Agree in principle to a more strategic and proactive model for bringing forward investment in development of key sites, based on the objectives set out in Para 16 of the report
- Approve the development and engagement of potential investor partners to develop options for a new model, with the intention a full options appraisal and business case is brought back to Cabinet in the New Year
- Approve the city's representation at MIPIM 2014 as next step in engaging with potential investors and developers as part of developing the new model.

Reason: To enable the city to make a step change improvement in development of key and strategic sites.

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	<b>Report Approved</b>	√	<b>Date</b>	24 October 2013
<b>Specialist Implications Officer(s)</b> None				
<b>Wards Affected:</b> All				√
<b>For further information please contact the authors of the report</b>				

**Background Papers:** None

**Annex:** Appendix 1 – Examples of Special Purpose Vehicles and Local Asset Backed Vehicle in Action