Item 6b) EZ investment cases

Investment project:	Blocks 22-24
EZ site:	Alderley Park
Applicant:	Alderley Park Ltd
Total project value:	£19.8m
EZ investment requested:	£4m
Date:	12 September 2019

1. Summary

Alderley Park Limited (APL) has applied for a total of £4m investment in respect of two projects to refurbish Block 22 and the basement of Blocks 23/24 at Alderley Park that will provide a total of 9,011 sqm (c.97,000 sq ft) of refurbished laboratory space. Both of these projects include a contribution towards the development of a new 2,247 space multi-storey car park (MSCP) on the site. The two projects could generate c.£401,500 per annum in retained business rates, generating up to £8.2m in retained business rates over the remaining lifetime of the EZ. On this basis the investment would pay back in 9.9 years. The applicant is seeking grant funding for the two projects on the basis of a gap in the overall financial viability of the schemes, which is exacerbated by abnormal infrastructure costs relating to the MSCP. Whilst these are two separate projects, they are being presented in a single business case due to MSCP element which is common to both projects.

2. Recommendations

That the EZ Board approves the investment in principle, subject to the following:

(a) No legal agreement is entered into until the LEP has the funds in place via the EZ borrowing facility

(b) Sign off of the State Aid opinion from the applicant's legal advisers by the LEP's legal advisers

3. Proposal

Alderley Park Limited (APL) has applied for a total of £4m investment in respect of two projects to refurbish Block 22 and the basement of Blocks 23/24 at Alderley Park that will provide a total of 9,011 sqm (c.97,000 sq ft) of refurbished laboratory space. Both of these projects include a contribution towards the development of a new 2,247 space multi-storey car park (MSCP) on the site.

The projects propose a mix of small, medium (2,000-5,000 sq ft units) in Blocks 23/24 and larger (10,000 sq ft) biology and chemistry labs and associated write up space in Block 22. Enquiries at Alderley Park range from 100 to 60,000 sq ft and around 40% could be accommodated within the space proposed within these two projects, supporting demand for the projects and the applicant's confidence that the space will let quickly.

The MSCP is required to facilitate anticipated employee growth at Alderley Park over the next three years. There are currently 2,500 spaces catering for 2,000 staff, but 6,000 employees are anticipated over the next 3-years. Without the new 2,247 space MSCP, the ability to attract and retain businesses and staff at Alderley Park, and continue its successful delivery of new space is severely constrained.

AstraZeneca's slower than anticipated decant from the sites, has left Alderley Park with a lack of supply of commercial office space ready and available for reoccupation. As a result, APL have been forced to progress more complex schemes such as that proposed at Block 22 and Blocks 23/24 earlier the they originally anticipated. The high costs of repurposing such space (formerly in-vivo laboratory space) relative to achievable values presents a financially unviable position relative to APL's required returns (IRR). The viability of both schemes is further impacted by the abnormal infrastructure costs associated with the development of the MSCP.

4. Technical appraisal

Cushman & Wakefield have undertaken a technical appraisal of the proposed investments (Appendix B) which notes that:

- The projects demonstrate a good strategic fit with the overarching Cheshire Science Corridor Development and Investment Strategy; the site-specific Development Plan for Alderley Park and a number of wider local and national strategies for economic growth.
- There is a clear demand for the projects, although market evidence is limited, the applicant has demonstrated that occupiers are currently being turned away or directed to unsuitable space due to the lack of existing supply. A vacancy schedule indicates c.50,000 sq ft of currently available space across the Park is spread across a number of buildings and reported to be of low quality and therefore difficult to let. A schedule of enquiries has been provided demonstrating interest from 51 businesses for c.330,000 sq ft of bioscience (laboratory and office) and tech/office space at Alderley Park over the next two years – over 6 times the existing available supply.
- The applicant has overestimated both the job and GVA outputs from both projects, applying higher job densities applicable to general office space to the projects. However, even when Cushman & Wakefield apply lower job densities for laboratories, the projects still represent medium to good value for money in terms of job creation and GVA relative to the EZ ask.
- The applicant estimates that the projects would generate c.£1.3m per annum in retained business rates, which would provide a payback period of 4.6 years. However, Cushman & Wakefield have tested this and have found it to represent a significant overestimation, including counting the retained business rates from Royal London Cushman & Wakefield's estimate, when accounting for the whole of the MSCP allocation is £401,500 per annum, which would increase the 9.9 years (based on full occupancy). This is on the cusp of the acceptable pay back period for the LEP. Cushman & Wakefield note that this represents a risk to the investment and could limit the opportunity to invest in other 'better value' projects. However, it should be noted that it is difficult at this stage to estimate the likely Rateable Value of the MSCP. Cushman & Wakefield have based their assessment of the MSCP on a comparable from an MSCP in Macclesfield of £135 per space. The applicant has used a range of comparables from Wilmslow, Alderley Edge and Knutsford that range from £300-600 per space.
- In terms of delivery, the site is in the freehold ownership of the applicant and is understood to have received planning consent for the proposed scheme and a clear and appropriate delivery strategy is in place. Patrizia is an established and experienced Asset and Development Manager who successfully delivered the first phase of development in 2016.

5. Benefits

Benefit	Quantum
New commercial floorspace (sq ft)	97,000
Brownfield land reclaimed (ha)	N/A
Number of new businesses attracted to EZ	15-30
Number of new permanent jobs created	300
Number of temporary construction jobs created	331
Gross Value Added (£)	18m
Annual retained business rates (£)	401,500
Total retained business rates (£)	8.3m
Private sector leverage (£)	15.8m

6. Risks

Risk		Impact	Likelihood	Mitigation
1.	Estimated level of retained business rates not achieved	Impacts on LEP's ability to repay debt, could lead to default on loans and reputational damage	Low	LEP policy of only reinvesting half of estimated retained business rates into a scheme provides headroom if retained business rates are lower than estimated. Cushman & Wakefield have taken a cautious view of the likely level of retained business rates from the projects.
2.	Developers do not deliver projects on time or on budget	Delays in completion of schemes would impact on level of retained business rates, whilst budget overruns would further increase the viability gap on schemes.	Moderate	Bruntwood are an established national developer with a strong track record of developing at Alderley Park. They have recently entered into a new £350m joint venture with Legal & General. EZ investment is capped, any cost-overruns are met by the applicant. We build long-stop start and completion date into our legal agreements.
3.	Schemes do not achieve practical completion, which does not trigger the payment of business rates	Would impact on the ability of the LEP to repay funding.	Moderate	Track record of the developer and a longstop completion date set within the legal agreement, with clawback penalties for under-performance.
4.	Developers deploy rate mitigation schemes to avoid empty rates	Could reduce empty rates payable to 25%, would impact on the ability of the LEP to repay funding.	Low	A 'no rate mitigation' clause built into the EZ investment legal agreement, which means that developers cannot mitigate their empty rates liabilities.
5.	Schemes do not attract occupiers	Limited impact as developers still have to pay empty rates	Moderate	Applicant has demonstrated that occupiers are currently being turned away or directed to unsuitable space due to the lack of existing supply.
6.	Investments are not deemed to be State Aid compliant	Limited impact as the risk on State Aid sits with the developer	Moderate	Provision of a State Aid opinion as part of the legal agreement, which is assessed by the LEP's legal advisers. Clawback provisions in the EZ investment legal agreement are triggered by any State Aid breach.