

## Briefing Note

### Salford Innovation Park

#### Background

Salford Innovation Park (SIP) is comprised of two distinct properties, Salford University Business Park (SUBP) and Salford Innovation Forum (SIF). Salford University Business Park was purchased by the City Council in November 2006 from the North West Development Agency. The purchase price was £5.859m funded through prudential borrowing with the annual cost of borrowing of £431k. The estate comprises 54 units totalling c.86,500sq ft, located on two sites, Leslie Hough Way and Winders Way, which are separated by Frederick Road.

The Salford Innovation Forum was completed during May 2007 and after an initial fit out period, tenants began taking occupation from 1<sup>st</sup> August 2007. The building totals c.30,000sq ft comprised of fifty individual suites ranging in size from single person offices up to those capable of accommodating up to 40 people. The £9.5m scheme was grant funded by the NWDA, ERDF and NDC with outputs attached to the grant funding

The Council had an aspiration for the development of SIP to strengthen the Salford end of the Arc of Opportunity and to position the city firmly at the core of the developing knowledge economy across the wider city region. To this end, Manchester Science Partnerships (MSP) (formerly Manchester Science Park) was engaged to manage the site, based on their experience which focuses on similar high quality properties appealing to knowledge based businesses. This arrangement has been in place since early 2011. The arrangement pre-dates the acquisition of MSP by Bruntwood.

#### Occupancy

The different properties forming the SIP have traditionally had differing levels of occupation during the period they have been owned by the City Council. The SIF has generally proven popular with tenants and had occupancy levels between 70% to 95% (79% as at 31<sup>st</sup> March 2019). However, Leslie Hough Way and Winders Way have been a more challenging proposition with occupancy of the former currently at 69% but the latter only 16%. At the date of acquisition, the overall void rate on the business park was 22%, current overall void rate is 53%. The table below shows the current detailed occupancy position across the estate:

Property	Total Area (sq ft)	Occupancy (sq ft) (Void)	Occupancy (%)
Salford Innovation Forum	29,832	23,439 (6,393)	79%
Leslie Hough Way	50,487	34,768 (15,719)	69%
Winders Way	35,975	5,628 (30,347)	16%
<b>TOTAL overall</b>	<b>116,294</b>	<b>63,835 (52,459)</b>	<b>59%</b>

## **Financial Position**

The outturn for rent receivable from all the properties forming SIP for FY 18/19 was £521,000 with an additional £81,000 from other income. In addition, tenants pay a service charge for the upkeep of the common parts of the estate which contributed an additional £370,000 during the financial year. Unrecoverable service charge and business rate costs incurred are as a result of the high void levels on the estate and do have a significant impact on the net position. Unrecoverable service charges and the charges for empty business rates in 18/19 were £521,000. This resulted in a net deficit of £54,000 in 18/19 when compared to the budget target of £115,000.

MSP provides an annual business plan for the estate and has in previous years requested additional funds from the Council to refurbish vacant units in an effort to attract new tenants. £66,000 was requested during the last financial year with a further £81,000 requested in the draft business plan for FY19/20. Due to the level of the deficit being generated by the estate and the additional capital contributions for refurbishments which have been requested, the business plan for this financial year has not yet been approved linked to future plans for the Estate linked to the Salford Crescent Masterplan proposals.

## **University of Salford and Crescent Masterplan**

In summer 2017 the City Council and University jointly commissioned 5plus architects and CBRE to develop a Masterplan for the University Campus, Adelphi and Crescent neighbourhoods. The initial Masterplan commission was concluded in February 2018 and the Council and University have subsequently been working closely with the University, 5plus architects and CBRE to develop the Masterplan Business Case and Delivery Strategy.

The Masterplan aims to create an inviting, attractive and unified place which generates wealth, jobs and knowledge, enhancing the wider Salford economy. The Masterplan promotes a radical improvement to public realm and aims to establish strong physical connections between the University and surrounding communities, connecting existing and new development into a coherent and connected City District. The Masterplan strives to create:

- A place of discovery and inspiration;
- A place to learn, research and collaborate;
- An environment where industry and academia comes together;
- A place to meet the neighbours and make a home;
- A place where you can walk, cycle, play and rest; and
- A place surrounded by art, culture and heritage.

The Masterplan geography has been split into five 'Development Zones':-

- Adelphi Development Zone
- Crescent Development Zone
- Peel Park Campus Development Zone
- Health District Development Zone
- Innovation District Development Zone

Salford Innovation Park is located within the identified Innovation District Development Zone which will be of strategic importance in meeting the growing demand for high quality incubation, enterprise and research space to support the University and City in meeting the needs of industry.

The Masterplan proposes the retention of Salford Innovation Forum and demolition of low-quality, small/medium sized units across the estate that no longer meet the needs of the new wave of digitally enabled industry and the provision of high quality, larger flexible buildings with a combined floor space of up to 1.6 million square feet.

This development zone provides a significant opportunity for the City, University and a selected Partner to work in partnership to deliver significant commercial growth, while responding directly to the University’s Industry Collaboration Zone agenda.

Recent emerging University proposals for the area also include the development of a new facility for testing autonomous vehicles, a robotics centre and a further phase of student residential accommodation, adjacent to existing residential properties in the area. This follows earlier proposals for an Eco-Energy Hub that was ultimately located elsewhere on the campus.

Given the magnitude of the identified opportunity it is important for the city council to adopt a management approach aligned with supporting the comprehensive regeneration aspirations as outlined in the Masterplan Vision.

**Management Guidelines**

To take account of the evolving Crescent masterplan, new guidelines for the management of the estate were provided to MSP in early 2018/19, as detailed below and on the attached plan. This is aimed at protecting and maximising the current income received from the estate but with an eye to the likelihood that vacant possession of some or all of the estate will be required in the coming years. The first stage has been an embargo on further capital investment on speculative refurbishment of vacant units. There are then separate strategies for Leslie Hough Way and Winders Way. For the former no new lettings are to take place and a strategy to decant existing tenants has been instructed based on firm interest from the University in part of the site. For the latter, short term occupancies are to be encouraged, which may include University staff, with the intention of reducing the empty business rates and service charge liability.

Area 1	Salbec House – can be dealt with in isolation. No issues with granting a long (c. 6 years lease) Capital investment considered on its merits based on any potential interest
Area 2	No long term agreements to be granted. Only occupancies permitted are short term with the aim of business rates mitigation. You’re going to try to establish UoS interest in the space and timescale No capital investment other than minor works (deep clean, stat compliance works, boilers) in support of short term lets
Area 3	No new lettings. Decant strategy required from MSP for this space No capital investment
SIF	Building to be retained long term Capital investment required and MSP to include in the revised BP suggested works and budget

Remainder of the estate	No new leases to be granted with an expiry date later than the current latest expiry in any block No further capital investment and Cat A refurb
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Based on the above, the reduced capital spend and recovery of foregone empty rates mitigation payments assisted in reducing the margin between the target and final outturn position in the previous financial years. It is expected that this will be the case moving forwards also as plans for the areas of land currently occupied by the Estate become clearer.

With these guidelines in place, which effectively place Winders Way and Leslie Hough Way in a holding pattern until proposals for the Crescent Masterplan emerge, forecasting of occupancy levels has become more difficult. Traditional planning would take account of past performance of units on the estate, take up of comparable space with a forecast level of lettings then able to be included in the business plan. As there is now a restriction on certain lettings taking place on one part of the estate other than for the purposes of business rates mitigation it will inevitably be problematic to attract occupiers who would otherwise be seeking to take an agreement for 5 to 10 years. Retention of tenants will also become an issue as upon renewal of an existing lease, it is likely a current tenant will consider other properties away from SUBP which have no pending redevelopment plans.

### **Rental Offer**

The level of rental being charged to occupiers of both the SIF and the business park properties are competitive with comparable properties. Business park rates are circa. £8psf whilst the SIF lets at an all-inclusive rent of £19.50psf. Whilst there are high levels of voids on the estate, there are some longstanding occupiers who have been on the park since prior to the Council taking ownership so rental levels could not be said to be either a deterrent to new occupiers or a reason why existing tenants leave. The SIF has always had high levels of occupancy despite an apparently high rental level of £19.50psf but this is an all-inclusive figure comprising rent, rates, and service charge and utility charges.

### **Issues**

The estate has a number of issues which contribute to the current financial position.

- Winders Way – This part of the estate has suffered from low levels of occupancy since the estate was first acquired by the Council. Upon acquisition, the void levels were around 30% and a substantial occupier was lost during the first year of the Council’s ownership. Whilst it benefits from competitive rents and good car park provision, it does have quite a stark feel which is compounded by the number of vacant units. The appearance of Leslie Hough Way with its soft landscaping and “busier” feel has contributed to its comparatively higher levels of occupancy.
- MSP – When the Council originally engaged MSP on the management of the estate it was a “boutique” operator with a small property portfolio of which SIP formed a significant part. Both the Council and MSP had a clear vision for the SIF and SUBP when the parties first came together. Over time this has become diluted particularly as MSP’s focus shifted towards its own properties and SIP became a smaller part of the wider MSP (and now Bruntwood) property portfolio. This dilution of the vision for what the park should be has led to investment simply aimed at increasing occupancy to ameliorate the financial position rather than in pursuance of a clear strategy for the park. We have also recently been informed that Bruntwood plan to transfer the management of the estate to its Bruntwood Works part of the business rather than it be managed under the MSP brand. Full details of this proposal are awaited, but the park will

continue not be differentiated as a hi-tech facility but simply another office park. In contrast to other MSP properties, MSP/Bruntwood do not have an ownership stake in the SIP which we believe does impact on their interest and management interest at the SIP. The Council does have a minority percentage interest in MSP valued at approximately £500k however due to conflicts of interest, the Council do not currently play a proactive role in the operation of the company. Once a Crescent Masterplan partner is appointed, it is intended, in conjunction with MSP/Bruntwood review their involvement in the SIP moving forwards.

Whilst the purchase of the Innovation Park was to generate a financial return for the City Council the performance to date has been disappointing, although ownership of the park does provide the opportunity to create significant investment in new facilities moving forwards.

Whilst covered in more detail within the body of the report a summary response in relation to member's specific questions is detailed below

### **Summary in relation to Member's questions:**

#### Methodology for forecasting income

This operates in accordance with good estate management practice operated by MSP in accordance with SCC instructions and governance

#### Contract and Performance of MSP

Basic current level of service - Future role will be determined once a Crescent Masterplan partner is selected

#### Voids

As set out elsewhere in the report with associated context given the Crescent Masterplan opportunity

#### Whether rents act as deterrent/incentive to businesses

SCC instructed management guidelines which do impact on MSP's ability to let business park units  
The SIF is unaffected and occupancy rates are generally high.

#### Long term aims for the Park

As per Crescent Masterplan opportunity as detailed within the report including the aspiration for substantial new floorspace building on the University's innovation and creative industry offer.