RSM McClure Watters (Consulting)
Connected for Success

Invest NI

Property Research

Final Report – Confidential – Not for Wider Circulation

October 2014

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1 EXECUTIVE SUMMARY

1.1 Introduction

Invest Northern Ireland's (Invest NI's) stated purpose is to improve the Northern Ireland economy through business development. Its aim is to support new and existing businesses to grow and compete internationally and to attract new inward investment to Northern Ireland.

Invest NI appointed RSM McClure Watters to ascertain if there is a need for the Agency to consider the introduction of new, or the revival of previous, property initiatives to stimulate economic development.

The key objectives of this report are as follows:

- Identify the nature and extent of market failure in the Northern Ireland industrial and office property markets;
- Identify potential solutions to address these;
- Determine the need for Invest NI to consider the introduction of additional or revival of previous property interventions to stimulate economic growth;
- Identify any additional property interventions Invest NI should consider, which should be in line with current Regional Aid Notification and other legal constraints;
- Establish how proposed property interventions fit with current strategic policy;
- Identify potential costs and required budgets for proposals; and
- Identify the most appropriate delivery mechanisms for suggested proposals.

Key elements of our research included:

- Desk based research of relevant policy/strategy information and demand data;
- Consultation with key stakeholders, which included interviews with representatives of: relevant pubic bodies; commercial estate agents; property developers; financial institutions; and Invest NI qualifying businesses; and
- Desk based and primary research into property interventions utilised by other economic development agencies in the UK and the Republic of Ireland.

1.2 Key Findings and Policy Implications

The following section summarises key findings emanating from our research and our associated policy implications.

1.2.1 Local Property Market Characteristics – Industrial Property

In terms of supply, our research highlights that:

- Invest NI holds c745 acres of serviced sites across Northern Ireland, with significant levels of supply available in Craigavon, Derry and Newtownabbey Council areas;
- In addition to the Invest NI holding, there is c3.2m sq ft of industrial property available in Northern Ireland, with c80% of the floor space and c79% of the buildings located outside Belfast; and
- Many of the available industrial units are older stock and many of the larger units in excess of 20,000 sq ft are located within older industrial estates or former large industrial

complexes that have been sub-divided to provide a range of industrial/warehouse accommodation.

In terms of demand:

- Demand from industrial occupiers is generally limited and ad hoc in nature. It is highest in relation to units of less than 10,000 sq ft, and it tends to decrease as unit sizes increase, although there appears to be a number of queries for units in excess of 50,000 sq ft. That said, Invest NI has indicated that they are not aware of any 'live' requirements for units of this size;
- Overall, occupier demand is expected to increase as the Northern Ireland economy improves, but this is not expected to result in significant rental or capital value increases;
- There has been no speculative development of new industrial/warehouse units over the past number of years due to the very low rentals and capital values; and
- There is currently very limited demand for industrial development sites, due to the low prices of existing buildings in comparison to development/construction costs. On the whole, the supply of Invest NI serviced sites appears to be adequate. However, it is also acknowledged that localised 'hot spots' of unmet demand may require public sector intervention in the future.

1.2.1.1 Local Property Market Characteristics - Office Space

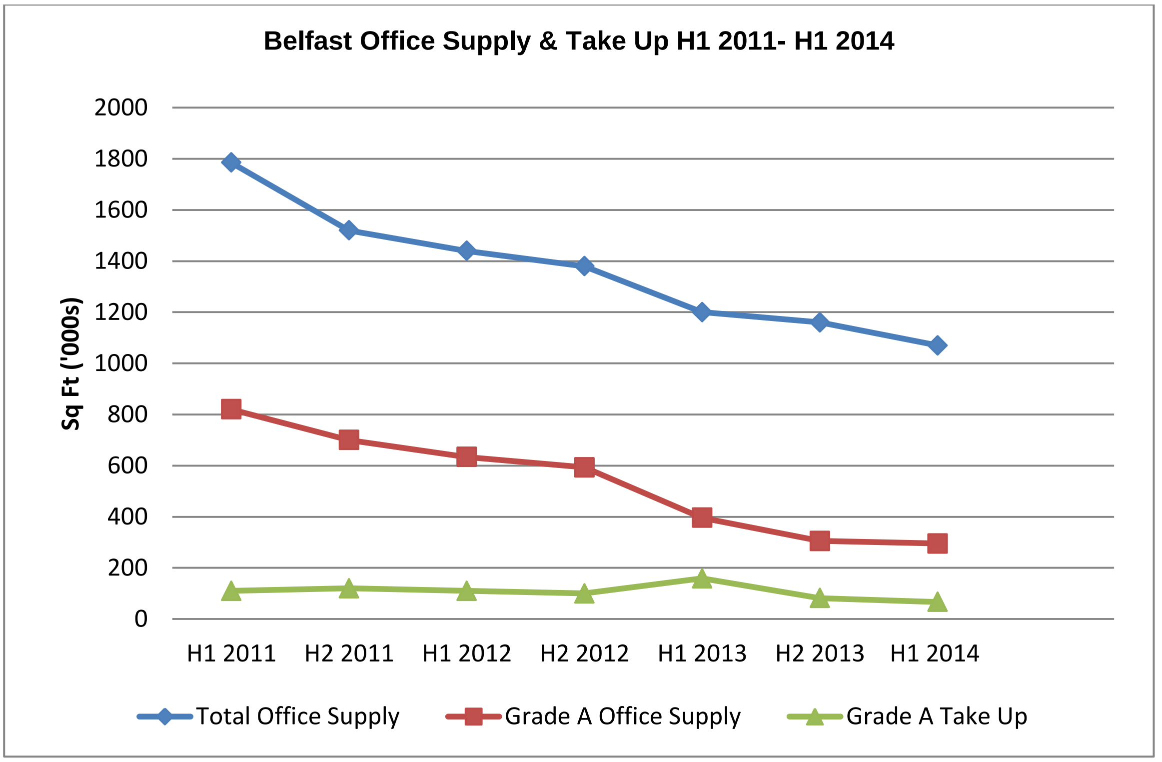
In terms of supply:

- There is c.1.1 million sq ft of office space currently available across Northern Ireland of which c900,000 sq ft is located in Belfast. Of the total supply, c320,000 sq ft is classified as Grade A office space, c250,000 sq ft of which is located in Belfast City Centre;
- 21% of this Grade A space is contained within units that are smaller than 10,000 sq ft. A further 36% is contained within units sized between 10-20,000 sq ft. There are only three office buildings across Northern Ireland that could offer space exceeding 20,000 sq ft.

In terms of demand:

- Office take-up in Belfast has averaged c320,000 sq ft per annum over the past 3 years, which is broadly in line with historic take up levels. Of this total, the take up of Grade A space has averaged c225,000 sq ft per annum;
- Commercial agents anticipate office space demand at c1.1m sq ft, spread over the next 3 years as lease ends come up and companies seek to move to upgrade/enlarge their accommodation. Invest NI enquiries suggest a similar volume of office space requirements but estimate Foreign Direct Investment (FDI) demand at 822,700 sq ft (677,900 of which is focused on Belfast);
- Invest NI job data suggests that FDI has utilised c143,000 sq ft of office space per annum over the last 3 years. In the years 2011/12 and 2012/13 this included 5 FDI projects requiring office accommodation of 20,000+ sq ft, equating to a total of c133,000 sq ft; and
- The Invest NI 2014/15 forecast for FDI (office based) jobs is the highest it has been in 4 years and is significantly higher than that profiled for the years 2011/2012 and 2012/2013, which suggests that demand for FDI office space will also be higher.

The graph below shows Belfast office supply and take up over the past 3 years.



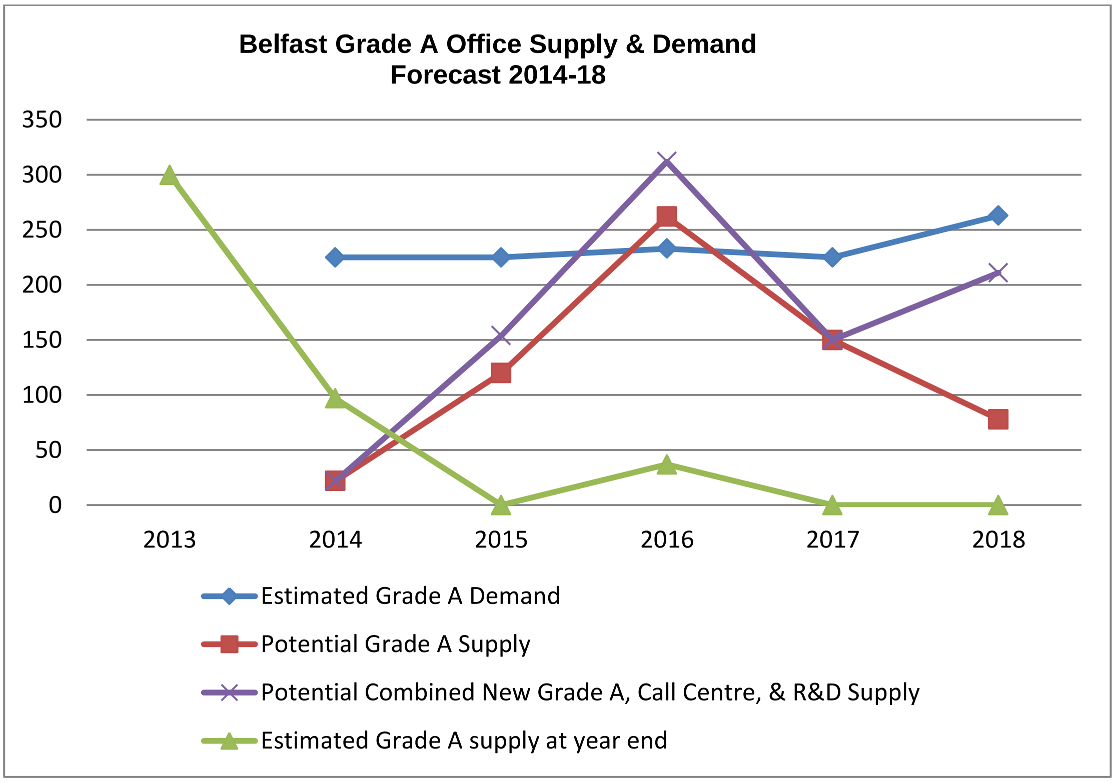
The graph shows that demand for Grade A office accommodation has remained relatively steady over the past 3 years, but with no development taking place both the overall supply and supply of Grade A offices has fallen steadily.

Planning permission has been granted for c1.0m. sq ft of office space in Belfast City Centre and Titanic Quarter, with current planning applications totalling c500,000 sq ft. In addition, planning permission has been granted for c600,000 sq ft of financial services/research and development space at Titanic Quarter. Only c20,000 sq ft of new build office accommodation will be completed in 2014. At present, there is only one new office building of c68,000 sq ft under construction in Belfast city centre.

There is potential for c473,000 sq ft of office space within Belfast City Centre to be vacated by government occupiers over the next 6 years, which may provide space which can be refurbished to provide additional Grade A office accommodation. However, the majority of this space would not be available until towards the end of this period.

Although the Belfast Harbour Commissioners development is likely to contribute positively to Belfast's Grade A offering, it will make only a modest contribution to the City's overall capacity and whilst other Grade A developments outside of the City Centre will contribute to the City's overall capacity, their location means that they are less likely to appeal to FDI occupiers.

The graph below shows an estimated forecast of Grade A office supply and demand in Belfast from 2014-18.



The above graph indicates that by the end of 2014, the supply of Grade A office accommodation is estimated to be just under 100,000 sq ft. The estimated new supply of c120,000 sq ft to be provided during 2015, will be insufficient to meet the average annual demand of c225,000 sq ft. However, it is estimated that there is potential for c260,000 sq ft of Grade A space to be developed in 2016, which would be sufficient to meet the estimated average annual demand. During 2017 and 2018, the estimated supply pipeline falls away again to levels that would be insufficient to meet average annual demand. The development taking place during 2015 and 2016 would therefore need to provide sufficiently robust market evidence to restore confidence that will encourage further schemes to come forward.

In terms of market rents/capital values:

- Rents for prime Grade A offices in Belfast are currently £13.50 - £14.00 per sq ft. At this level, rents are 25 - 50% lower than comparable regional cities in Great Britain and c50% lower than Dublin;
- Office investment capitalisation yields in Belfast are higher than comparable cities in GB and Dublin, with the result that office capital values are 33%-66% lower; and
- Lower rent and capital values have impacted on the quality of specification of office accommodation and commercial viability of office development in Belfast and Northern Ireland as a whole.

1.2.2 Market Failure & Barriers to Growth

Our research indicates that private developers are currently not prepared to commence new industrial or office development in Northern Ireland and that there is market failure within these market sectors. Our research would indicate that there are four main reasons for this market failure, namely:

- Commercial Viability - Low rents and high capitalisation yields in the industrial and office markets compromise the viability of projects and discourage investment;
- Availability of Development Finance – Bank lending terms are restrictive;
- Developer Financial Ability and Appetite for Risk - There are very few local developers with the level of equity required to commence a development and the returns that developers with equity could receive from other investments/developments outside Northern Ireland may be more attractive or represent a lower level of risk; and
- Information Asymmetry – i.e. 'imperfect information' in relation to:
    - The ability of Invest NI qualifying companies to access information and advice on funding opportunities and the property development process;
    - Agents/developers having sight of the nature and level of demand emanating from Invest NI qualifying businesses; and
    - Lending institutions awareness of property development support provided by Invest NI.

1.2.3 Policy Implications

Industrial Property

Although demand for industrial property is generally limited and ad hoc in nature, stakeholder feedback identifies that a number of Invest NI's interventions remain relevant going forward, namely:

- The provision of serviced sites;
- Property advice; and
- Invest NI's contribution to the planning system.

Given limited demand and the very prescriptive demands of individual industries and companies, speculative building of factories is no longer relevant.

Office Space

Based on the demand and supply figures profiled, it is evident that current supply of Grade A accommodation Belfast City Centre is extremely limited. This is particularly pronounced in relation to buildings capable of accommodating a requirement in excess of 20,000 sq ft.

Stakeholder feedback has also confirmed that low rents and high capitalisation yields experienced in the office market compromise the viability of projects and that the conditions associated with bank lending means that there are very few local developers with the level of equity required to commence a development. Consequently, there is limited potential for any significant development to occur in the next 1-5 years.

The above provides a clear justification for the consideration of a public sector intervention that aims to address the current shortage of Grade A office space in Belfast City Centre by reducing the financial risk of the development.

However, the current indications of rental growth and the release of Government occupied buildings may help alleviate the market failures that are currently at play, therefore the implementation of any future intervention should aim to be short-term in nature, focused solely on addressing the current lack of supply of Grade A office space and the associated issues of development viability and risk.

Information Asymmetry

The nature of information asymmetry identified by stakeholders also suggests the need for enhanced levels of engagement and information sharing between Invest NI and agents, developers and lending institutions.

1.3 Assessment of Potential Property Development Interventions

In Section 8 of this report, we profile a range of potential interventions that might be used to address financial risk and viability issues associated with the development of industrial property and 'Grade A' office space.

Table 1.1 provides a summary of the interventions and their performance[1] against key criteria that have been used to assess the balance between them.

Table 1:1: Assessment of Industrial Property and 'Grade A' Office Interventions

		Intervention Performance by Criterion			
Intervention	**Ability to Address Identified Market Failures**	**Invest NI Control to ensure client needs are met**	**Affordability**	**Financial Risk to Invest NI**	**Overall Performance**
Invest NI speculatively build an office building	High	High	Low	Low/ Medium	Medium
Invest NI acquires a new office buildings	High	High	Low	Low/ Medium	Medium
Invest NI provides development funding	Medium	Medium	Medium	Medium	Medium
Provision of a capital grant to developers	Low	Medium	Medium	Low	Low/Medium
Provision of mezzanine finance to developers	Low	Medium	Medium	Medium	Medium
Invest NI take an equity stake	Low	Medium	Medium	Medium	Medium

[1] Where performance is identified as being 'low', the intervention is judged as likely to perform poorly against the identified criterion. A 'high' identifies that the intervention is judged as likely to perform well against the identified criterion.

		Intervention Performance by Criterion			
Intervention	**Ability to Address Identified Market Failures**	**Invest NI Control to ensure client needs are met**	**Affordability**	**Financial Risk to Invest NI**	**Overall Performance**
Invest NI take an underlying lease and sublet to qualifying businesses	High	High	Medium/High	Low/ Medium	Medium/ High
Invest NI act as lease guarantor for Invest NI qualifying businesses	High	High	Medium/High	Low /Medium	Medium /High

Our research highlights that the main constraint that needs addressed in the short to medium term is the fact that industrial and office developments are not currently commercially viable.

1.3.1 Grade A Office Space

There is evidence that due to the shortage of supply of Grade A office space in Belfast City Centre and the level of occupier demand, that there is upward pressure on office rents which should help to improve development viability. However, tenants are still seeking flexible lease terms with the result that current lease lengths and covenant strengths may not be sufficient to drive down investment yields to a level that would make the development commercially viable.

Therefore, we recommend that Invest NI should consider an intervention whereby Invest NI take an underlying lease or act as a lease guarantor. This would provide a long term secure rental income that would make the development commercially viable and secure development funding.

Whilst the office market may improve to the point that development is considered to be commercially viable, developer equity and appetite for development is likely to remain limited for the foreseeable future. Invest NI should consider the provision of mezzanine funding to developers in order to assist a developer to raise the required level of developer equity.

These interventions would constitute a relatively 'light touch' to the office market and may help to help to set a benchmark for office specification and rents to a level that makes development commercially viable for private developers and provides an office product that is attractive to occupiers and investors.

1.3.2 Industrial Property

Within the industrial sector, there is a substantial shortfall between industrial property capital values and development costs. Occupier demand for leasing or owner occupation is also generally ad hoc in nature. We therefore recommend that Invest NI considers the provision of a gap funding intervention, similar to the Private Developer Agreement, which would be appropriate on the back of an identified industrial qualifying business requirement.

1.4 Potential Interventions to Address Asymmetric Information

Our research has identified a number of areas where asymmetric information is impacting on the efficiency of the market. Table 1.2 outlines the nature of these issues and a range of proposed interventions to address them.

Table 1:2: Proposed Interventions to Address Asymmetric Information

Nature of Issue	Proposed Intervention
Qualifying businesses having difficulty in accessing funding and development process information/expertise	Augmentation of existing Invest NI Property web page and/or NI Business Info web site to include: • Details of property interventions and other sources of funding; • Guidance on taking forward property projects; • Examples of best practice; • Signposting to other sources of relevant information/expertise; • Contact details of property developers, commercial agents/property consultants, solicitors and other relevant professionals.
Financial Institutions not being aware of Invest NI property support	• Augmentation of existing Invest NI Property web page and/or NI Business Info web site to included details of property interventions and other sources of funding (as above); • Provision of regular briefings to financial institutions on property related matters.
Agents/developers not having a comprehensive feel for demand for accommodation by Invest NI qualifying businesses	• Development of accessible/searchable database of enquiries/requirements from qualifying businesses; • Provision of monthly e-mail updates on live enquiries.

1.5 Recommended Interventions, Associated Costs and Delivery Mechanisms

Table 1.3 provides an overview of the interventions that we recommend should be considered by Invest NI and their associated costs and delivery mechanisms.

Table 1:3: Study Recommendations and Associated Actions/Indicative Costs

Recommendation	Associated Actions	Indicative Costs	Delivery By
Consider the provision of an underlying lease or lease guarantee for a Belfast City Centre 'Grade A' office development	• Monitoring of development activity in Grade A property.	• Internal Invest NI staff cost only.	Invest NI
	• Business Case development.	• c£15,000.	External Consultants
	• Liaison with DETI and DFP on approvals.	• Internal Invest NI staff cost only.	
	• Development and issue of market requirement.	• Internal Invest NI staff cost only.	Invest NI
	• Assessment of responses to market requirement.	• Internal Invest NI staff cost only.	
	• Development of agreement for lease.	• Internal Invest NI staff cost and legal costs.	
	• Marketing and sub-letting of property.	• Invest NI staff costs and letting agent and legal fees (c10% and 5% of first year rental).	
	• Rental payments relating to unlet space.	• Potentially £15-£18 per sq ft for unlet space, potentially reducing to nil for sub-let space.	
Consider the provision of mezzanine finance to developers	• Business Case development;	• Estimated at £15,000	External Consultants
	• Liaison with DETI, DFP and HM Treasury approvals	• Internal Invest NI staff cost	Invest NI
	• Preparation of loan documentation	• Invest NI's legal adviser (cost passed to borrower);	Legal adviser
	• Loan administration	• Internal cost which may be off-set by loan interest	DETI/DFP

Recommendation	Associated Actions	Indicative Costs	Delivery By
Consider the provision of gap funding for industrial property' e.g. similar to a Private Developer Agreement'	• Development of Business Case for proposed intervention.	• c£10,000.	External Consultants
	• Liaison with DETI and DFP on approvals.	• Internal Invest NI staff cost only.	Invest NI
	• Scheme marketing.	• Internal Invest NI cost only.	
	• Assessment of funding requests (internal Invest NI cost).	• Internal Invest NI staff cost only.	
	• Funding management and control (internal Invest NI cost).	• Internal Invest NI staff cost only.	
	• Award of development funding.	• c£840,000 per scheme per annum. Capped at 30% of total development costs, as per European Union State Aid regulations.	
Consider the enhanced provision of information and engagement with developers, agents and financial institutions.	• Augmentation of existing Invest NI Property web page and NI Business Info web site.	• Internal Invest NI cost only.	Invest NI
	• Provision of regular briefings to financial institutions on property related matters.	• Internal Invest NI staff cost only.	Invest NI
	• Development of on-line agent database providing client enquiries/requirements.	• c£5,000 on-line database development. • Internal Invest NI staff cost re updating database.	External consultant/ Invest NI
	• Provision of monthly e-mail updates on live enquiries.	• Internal Invest NI staff cost only.	Invest NI

2 INTRODUCTION

2.1 Purpose of Our Commission

Invest Northern Ireland (Invest NI) appointed RSM McClure Watters to assess the industrial and office markets in Northern Ireland to ascertain if there is a need for the Agency to consider the introduction of new, or the revival of previous, property initiatives to stimulate economic development.

The Terms of Reference for the assignment states that Invest NI requires a research/bench marking exercise to be undertaken to assess the need to refresh its suite of property solutions to ensure they meet the needs of the Northern Ireland business base.

The key objectives of the report are as follows:

- Identify the nature and extent of market failure in the Northern Ireland industrial and office property markets;
- Identify potential solutions to address these;
- Determine the need for Invest NI to consider the introduction of additional or revival of previous property interventions to stimulate economic growth;
- Identify any additional property interventions Invest NI should consider, which should be in line with current Regional Aid Notification and other legal constraints;
- Establish how proposed property interventions fit with current strategic policy;
- Identify potential costs and required budgets for proposals; and
- Identify the most appropriate delivery mechanisms for suggested proposals.

2.2 Invest NI Property Solutions Context

Invest NI's stated purpose is to improve the Northern Ireland economy through business development. Their aim is to support new and existing businesses to grow and compete internationally and to attract new inward investment to Northern Ireland i.e. Foreign Direct Investment (FDI).

In line with the NI Programme for Government (PfG) 2011-15 and associated NI Executive Economic Strategy, the Invest NI Corporate Plan 2011-15 sets out how the organisation aims to contribute to the rebalancing and rebuilding of the local economy and increase the overall standard of living by driving productivity growth and increasing employment.

In doing so, Invest NI support detailed under its Corporate Plan is aligned to the "drivers of economic growth" set out in the Economic Strategy, which includes "Developing our Economic Infrastructure" (through land and property solutions), and developing sites to support economic growth. The context is also set for property intervention by the Investment Strategy for NI.

Invest NI seeks to provide suitable property interventions (both advisory and financial), where there is evidence of market failure, to ensure indigenous businesses[2] can grow and the property conditions are suitable to encourage FDI.

Invest NI and its predecessors, the Industrial Development Board (IDB) and the Local Enterprise Development Unit (LEDU); have offered a range of property solutions to assist their clients' development through the Property Solutions Unit. These solutions have included the provision of serviced sites, information on the private sector property market, a marketing service and site searches through its own property database and grant support through its Property Assistance Scheme. It also provides some rental property.

Details of the interventions and their alignment with the strategic context are outlined further in Section 3.

2.3 Structure of Report

The subsequent sections of this report are structured as follows:

Table 2:1: Structure of Report

Section/Title	Details
Section 3: Policy & Economic Context	An overview of the strategic policies that have shaped the property interventions of Invest NI and its predecessors. This section also provides a brief commentary on the economic context over the period.
Section 4: Desk Research Findings – Local Property Market Characteristics	A literature review which outlines the key issues relating to demand and supply of industrial and office property in the current market and issues relating to market failure.
Section 5: Stakeholder Consultation	The stakeholder consultation considers the key issues outlined in the subsequent section in greater detail.
Section 6: Key Findings and Policy Implications	The key findings of the policy review, desktop research and primary research are summarised.
Section 7: Benchmarking/Case Studies	Based on desktop and primary research, the property interventions of other agencies in the UK and the Republic of Ireland are detailed and assessed.
Section 8: Assessment of Potential Future Interventions	Review and shortlisting of prospective interventions and identification of intervention costs/ key steps in implementation.

[2] If an indigenous business can show that it intends to sell outside Northern Ireland, is actively pursuing growth plans and will contribute to increasing productivity and innovation, Invest NI may be able to provide financial support by way of grant or loan towards the construction of premises.

3 POLICY & ECONOMIC CONTEXT

3.1 Introduction

The review of government policy context and the economic context involves a combination of past and present policy documents in order to assess the previous and existing need for Government intervention in the commercial property market.

3.2 Pre 2002 Policy Context

Invest NI was established in April 2002, replacing IDB, LEDU and the Industrial Research and Technology Unit (IRTU) as the economic development agency for Northern Ireland.

The **Industrial Development Order 1982 (NI)** provided the legal grounding for the previous agencies and subsequently Invest NI with regard to the provision of premises and sites for occupation by industrial undertaking. This includes the ability of Invest NI (formerly IDB and LEDU) to acquire / lease any land either by agreement or compulsorily. They may also dispose of any land that has been acquired.

Additionally, the Order provides the power to enter into an agreement with any person in order to develop any land, whether they hold an estate in the specified land or not. The development allows the creation or extension of buildings, and the modernisation or repair of buildings.

The **IDB Corporate Plan for 1998-2001** indicates that the organisation's key objectives were to facilitate the "growth of locally and externally owned internationally competitive companies in the manufacturing and internationally tradeable service sectors in Northern Ireland" and attract FDI within these sectors. This included an objective to develop at least 475 acres of additional industrial land of which 300 acres should be in socially deprived areas.

In response to the Industrial Development Order and their Corporate Plan, IDB provided both capital and revenue related property interventions. The **IDB Book** outlines that, in line with the Industrial Development Order (1982), IDB and LEDU could provide:

Table 3:1: IDB / LEDU Property Interventions

Intervention	Overview
Capital Grants	Up to 50% of total costs were available to qualifying businesses for building works including construction of factory premises, extensions and adaptations.
Revenue Grants	A rent grant was available for up to 100% of property rental costs for up to 5 years. However, the level of rent grant and length of rent grant was weighted to provide the greatest level of assistance to those companies located in economic and socially deprived areas.
Development of Serviced Sites	Purchase of land for industrial sites and development of access roads and services. The lands were then leased on 999 year or 125 year agreements.
Development of Factories	Speculative build of factories or development of bespoke factories for specific clients. The factories were leased for 20 years with 5 yearly rent reviews.

3.3 2002 – 2011 Policy Context

The key priorities of Invest NI's **Corporate Plan 2002-2005** included:

- Achieving higher levels of growth by indigenous and externally owned companies; and
- The promotion of industrial development projects in areas of high unemployment and social need.

Within the period of this Plan **Invest NI's 2002 Property Development Strategy** was developed which articulated the Property Solutions Unit's mission statement as being:

"to stimulate economic growth by ensuring that adequate infrastructure (land and buildings) is available; through appropriate partnership or by direct provision"

The **Economic Vision for Northern Ireland (2005**) was a high value-added, highly skilled, innovative and enterprising economy which enabled global competition, leading to greater wealth-creation and better employment opportunities for all. One of the key drivers of this vision was that Northern Ireland supports business through development of a modern infrastructure, which Invest NI's Property Solutions Unit sought to contribute to through their property interventions.

Invest NI's Corporate Plan (2005 – 2008) stated their three key objectives as being: entrepreneurial; innovative; and international. The property interventions were geared to create the property conditions that facilitated the growth of companies, thereby improving their capacity to export on the international stage.

The **DETI Corporate Plan for 2008-2011** set out DETI's overarching economic priorities for this period. These included the desire to increase employment opportunities via the attraction of high quality foreign investment, as well as support for domestic investment. They also aimed to ensure that Northern Ireland has a modern and sustainable economic infrastructure, in order to support businesses.

The **Invest NI Corporate Plan 2008-2011** sought to support DETI's aims by *"[increasing] business productivity, the means by which wealth can be created for the benefit of the whole community."* As part of their land strategy, it is noted that Invest NI holds a stock of land for industrial use. They lease serviced sites to qualifying businesses who require property solutions in order to implement their growth projects. At that time, it was foreseen that their stock of land would be fully let within 5-7 years, unless new land was attained. In light of this, Invest NI stated that they would intervene in the property market where there is a notable market failure, and by 2012, they intended acquiring an additional 200 acres of land for qualifying businesses via various projects. The Corporate Plan also had a target that 75% of land acquisition would be in areas of Economic Disadvantage.

The **Invest NI Acquisition and Disposal Strategy (2008)** set out the case for acquiring additional land in a number of locations across Northern Ireland, in line with the specifications in the Industrial Development NI Order 1982. The intervention into the commercial property market focuses on the main hubs and gateways where market failure exists and needs have been identified. The need for continuing the acquisition process was identified as necessary due to the protracted nature of land acquisition, which can take several years to complete.

The **Investment Strategy for Northern Ireland (ISNI) 2008-2018** covered areas which are a priority for investment in Northern Ireland. Productive investment is one key area. This encapsulates enterprise and innovation, tourism, rural development and primary industries. The strategy aims to provide publicly owned land, designated for industrial use, in areas where there is a noticeable market failure. Specifically, the strategy aims to ensure that Invest NI qualifying businesses are not limited by the current trends in the property market. The Strategy highlights that Invest NI will acquire land for these clients at main regional hubs, in line with the **Regional Development Strategy 2025** which seeks to provide a regional economic balance.

Planning Policy Statement 4 (PPS 4) 'Planning and Economic Development' (Nov 2010) sets out the planning policies of the Department of the Environment for economic development uses. For the purposes of PPS 4, economic development uses comprise industrial, business and storage and distribution uses, as currently defined in **Part B 'Industrial and Business Uses' of the Planning (Use Classes) Order NI 2004** which is as follows:

Class B1: Business
Use –
a) as an office other than a use within Class A2 (Financial, professional and other services);
b) as a call centre; or
c) for research and development which can be carried out without detriment to amenity by reason of noise, vibration, smell, fumes, smoke, soot, ash, dust or grit.
Class B2: Light Industrial
Use for any industrial process which can be carried out without detriment to amenity by reason of noise, vibration, smell, fumes, smoke, soot, ash, dust or grit.
Class B3: General Industrial
Use for the carrying on of any industrial process other than one falling within Class B2.
Class B4: Storage or distribution
Use for storage or as a distribution centre.

Invest NI's current remit and interventions are in respect of accommodation falling within Classes B1, B2 and B3.

Planning Service is in the process of replacing the current suite of Planning Policy Statements with a Single Strategic Planning Policy. Invest NI has been a key consultee in this process. The drafting of the single policy will be in completed by the time the new district councils assume control of the planning process in April 2015. The existing Planning Policy Statements will remain in place until the individual councils bring forward their own area plans.

3.4 Current Context (2011 – 2015)

The **Northern Ireland Programme for Government for 2011-2015** sets out the updated strategic priorities and key plans for the Government. The main priority of the Programme is to accomplish substantial economic development, which will be achieved by improving competitiveness via the rebalancing of the economy in order to improve wealth and living conditions for everyone. The following methods have been specified for this priority:

- Achieve £1 billion of investment in the Northern Ireland economy, which is made up of £375m as a result of Foreign Direct Investment, £400m from indigenous businesses supported by Invest NI and £225 million as a result of the Jobs Fund;
- Contribute to rising levels of employment by supporting the promotion of over 25,000 new jobs; and
- Increase the value of manufacturing exports by 20%.

The property interventions of Invest NI seek to ensure there is sufficient stock and advice available to encourage FDI and indigenous business growth, thereby increasing employment levels and increasing the value of exports.

The **DETI Corporate Plan for 2011-2015** is aligned to the targets of the Programme for Government and **Invest NI's Corporate Plan for 2011-2015** is subsequently aligned with DETI's priorities. Invest NI's Corporate Plan depicts the role they will assume in supporting wealth creation in Northern Ireland as an "*enabler and catalyst to grow innovation, exports, productivity, and employment throughout the business base*". One such driver of economic growth is the development of economic infrastructure, which involves the readying of 100 acres of serviced sites which will be made available to qualifying businesses by 2015. The purpose of the development of these sites is to create attractive locations from which to do business, supporting economic progress in the surrounding areas.

The **Regional Development Strategy for 2035** is a revised version of the previously published strategy for 2025. It provides a spatial strategy of the Executive, with the purpose of delivering the spatial aspects of the Northern Ireland Programme for Government, and an overarching framework for guiding the public and private sectors. The strategy influences the Programme for Government, along with the Investment Strategy for Northern Ireland. Consequently, Invest NI is cognisant of the need to ensure that their property development is focused across NI.

The **Northern Ireland Executive's Economic Strategy 2012** outlines its overarching aim as improving the economic competitiveness of the economy in NI, increasing employment and wealth opportunities for everyone. This is expressed in their vision for the economy in 2030:

> *"An economy characterised by a sustainable and growing private sector, where a greater number of firms compete in global markets and there is growing employment and prosperity for all".*

The strategy notes that many companies who invested in property assets outside their main business are now having difficulty with accessing capital to fund their core activity. Another priority for the rebalancing of the economy is ensuring that key infrastructure areas, including property, feature the necessary capability to absorb increasing levels of economic activity.

The **Investment Strategy for Northern Ireland 2011-2021** is an updated version of the strategy that was released in 2008. The strategy still recognises Invest NI's intent in ensuring that businesses are not restricted by the current market instability when seeking out export-focused growth plans.

Whilst Invest NI seeks to support business growth and FDI, they are restricted by **State Aid Notification**. Article 107(3) of the State Aid Treaty which specifies that State Aid is permissible when used as aid to promote and facilitate the economic development of areas where the standard of living is unusually low. The current maximum aid intensity is 30% of total cost, which inevitably impacts the level of support that Invest NI can provide.

3.5 Economic Context (2002 – to date)

Prior to the establishment of Invest NI, Northern Ireland's economy and the labour market had improved from the early 1990s. Whilst employment in the manufacturing sector had fallen, the service sector had grown significantly. During the 1990s the gap between GDP per capita in NI and the UK as a whole narrowed. However, NI GDP per capita in 2002 stood at 77.5% of the UK average[3], thereby presenting the newly established Invest NI with a clear focus on improving the economic performance of the region.

In 2004, the economic outlook for Northern Ireland was buoyant and strong. The transition was being made from a traditional manufacturing based economy, with positive trends in R&D, enterprise and exports. Whilst there remained weaknesses in the economy, such as an over-reliance on the public sector, it was recognised that stimulating private sector economic growth would help address these issues. The economy continued to grow over the 2004-2007 period, and encouraging advances were made.

During the period from 2004 — 2007, the property market followed a similar pattern to the economy in Northern Ireland in terms of the demand for industrial and business space. The decline in traditional manufacturing caused a continued drop in demand for factory space. This resulted in more factory closures some of which were redeveloped for non-industrial uses. During the same period Northern Ireland experienced an increase in activity from R&D, IT and Service sectors.

However, the recession, which began in 2008, had a significant impact on the local economy. Employment peaked at 731,740 in June 2008, with private sector employment peaking at 513,050 and equal to 70% of all jobs. By June 2009, employment had reduced to 706,340 with private sector employment having fallen to 482,960 and this downward trend continued with private sector employment in December 2009 recorded at 477,750. By September 2011 employment had fallen to 693,083[4]. Interest rates reflected this 'boom and bust' movement moving from a peak of 5.75% in July 2007 to 0.5% in March 2009 and have remained at this level for over 5 years.

The construction sector in Northern Ireland has been the most severely impacted both in terms of output and jobs since the economic downturn. Construction output peaked in 2007 and was the first sector in Northern Ireland to experience a slowdown. Since 2007 the construction sector has experienced a consistent general downward trend in output. The current levels[5] of output are approximately 46% lower than the levels reported in the quarters before the downturn in 2007. The latest figures from the Northern Ireland Labour Market Report estimate that the number of employee jobs in the Construction sector in Northern Ireland has fallen by 36% since 2007.

[3] Source: DETI Corporate Plan 2002 - 2005
[4] Source NISRA
[5] "Northern Ireland Construction Bulletin Output in the Construction Industry" Quarter 1 2014

The Northern Ireland Composite Economic Index[6] (Quarter 1 January 2014) identifies that the local economy has shown signs of growth in the last year with an annual rise of 1.6%. The index is currently 2.1% above the minimum level reached in Quarter 2 2012 but is currently 12.7% below the 2007 Quarter 2 peak.

In terms of the outlook, forecasters predict NI Gross Value Added (GVA)[7] to grow in 2014 by c2%, although factors such as continued low levels of business investment; impaired consumer spending/confidence; a strengthening of sterling (which makes our exports more expensive); and external risks (e.g. Eurozone risks and the tapering of Quantitative Easing in the United States); are all potential areas of risk that could impact negatively on any future growth.

3.6 Invest NI Property Interventions

In response to the strategic and economic context, Invest NI currently provides the following property interventions:

Table 3:2: Current Invest NI Property Interventions

Intervention	Description
Purchase, holding and sale of serviced sites	Invest NI holds the freehold of 2,838 acres of land, across Northern Ireland, which has been developed into serviced business parks/industrial estates. This land is sold only to Invest NI qualifying businesses with growth projects. At present there are 745 acres available for sale across NI. Sales of sites by way of 999 year leases are subject to the normal Invest NI intervention principles and these sites are sold at market value.
Rental Property Solutions	Invest NI currently owns 18 industrial properties, available for rent or sale to support client needs, and also holds the lease for two other buildings which it makes available to third parties. Since 2002, 51 acres have been sold to qualifying businesses. Invest NI no longer speculatively builds factories due to the current available stock.
Property Assistance (PA) Scheme	In 2004 two existing property grant schemes were rationalised into one, establishing the Property Assistance Scheme which was launched in June 2005. The Scheme is a qualifying business intervention in line with Invest NI's principles for business support. The scheme offers funding assistance where an approved business plan has identified a funding gap. Whilst this scheme is still available, consultation suggests that this intervention is not widely used.
Property sales and marketing advice	Advice and assistance to businesses looking for suitable premises in Northern Ireland. The property sales and marketing services provide access to a comprehensive database of office and industrial property in Northern Ireland as well as supplying property searches, property marketing intelligence, property advice and organising property visit programmes.

[6] An experimental quarterly measure developed by NISRA to operate as a close equivalent to NI GDP.
[7] Gross Value Added

Intervention	Description
Invest NI contribution to the planning system	Invest NI is consulted by DoE Planning Service, either directly or via DETI, on the formulation of planning policy, the development of Area Plans, or the determination of planning applications. Invest NI engages in this process under the auspices of its enabling legislation and seeks to ensure that land is provided and protected for future economic use.

3.7 Conclusion to Strategic & Economic Context

In line with Government policy, Invest NI and its predecessors have sought to provide property interventions that enable indigenous businesses to grow and to attract FDI. The development of serviced sites represents a long term strategic approach, which aims to ensure that Invest NI qualifying businesses are not limited by the current trends in the property market and recognises the need to provide the appropriate infrastructure in the longer term.

Furthermore, Invest NI had a clear strategy to rebalance the economy by seeking to locate sites and factories in deprived areas and in locations across NI rather than a Belfast-centric approach.

In economic terms, the economy had grown consistently from the 1990s until 2007 and Invest NI's property interventions provided support where market failure was evident. However, as the economy declined, investment and business growth were less evident, which inevitably impacts on the use and relevance of the available interventions.

As the economy begins to show some signs of growth, there is a clear context to assess Invest NI's suite of interventions to ensure they are relevant to NI business growth and the attraction of FDI.

4 DESK RESEARCH – LOCAL PROPERTY MARKET CHARACTERISTICS

4.1 Introduction

The following section presents key findings resulting from a review of relevant literature/data relating to the industrial and office sectors within the Northern Ireland commercial property market.

We provide details on the supply, demand and rents/capital values associated with both industrial and office sectors. Retail space is excluded as this is not a sector within which Invest NI operate.

4.2 Industrial Space

4.2.1 Supply of Industrial Space

4.2.1.1 Invest NI Data

At present Invest NI holds c745 acres of serviced sites across Northern Ireland. This is disaggregated into the Council areas as follows:

Table 4:1: Invest NI Available Land Holdings

Council Area	Acres Available
Antrim	7.9
Ards	4.1
Armagh	7.4
Ballymena	30.0
Ballymoney	4.5
Banbridge	0.0
Belfast	20.2
Carrickfergus	16.9
Castlereagh	0.0
Coleraine	47.7
Cookstown	2.4
Craigavon	174.1
Derry	102.9

Council Area	Acres Available
Down	49.3
Dungannon	15.4
Fermanagh	36.6
Larne	4.7
Limavady	16.5
Lisburn	21.7
Magherafelt	19.9
Moyle	2.0
Newry & Mourne	22.0
Newtownabbey	97.7
North Down	20.1
Omagh	4.8
Strabane	15.8
Total	**744.6**

Source: Invest NI

The table above demonstrates that Invest NI holds a spread of land across Northern Ireland and that there is significant supply available in Craigavon, Derry and Newtownabbey Council areas. The remainders have less than 50 acres in each Council area.

4.2.1.2 Commercial Agent Data

In addition to the Invest NI holding, Table 4.2 overleaf shows a breakdown of industrial and warehouse accommodation that was being marketed for sale and to let in Northern Ireland in Q4 2013. The data is based on details provided by the main commercial agents and from details published on agents' websites. The availability of accommodation is disaggregated into categories of total floor area available per building and whether the location is in Belfast or outside of Belfast.

The data does not provide any differentiation between the quality or specification of the units or if the units are more suitable for industrial/manufacturing uses or storage/distribution uses. Accommodation requirements of storage and distribution occupiers, do not qualify for the current interventions available from Invest NI. Storage/distribution units may require some adaptation to make them suitable for use by an industrial occupier.

Table 4:2: Industrial Accommodation Supply excluding Invest NI Holdings

	Belfast		Outside			
	Area (Sq Ft)	No. of Buildings	Area (Sq Ft)	No. of Buildings	Total (Sq Ft)	Total Buildings
<10,000	18,000	2	180,041	39	**198,041**	**41**
10-20,000	242,437	18	500,156	34	**742,593**	**52**
20-50,000	273,249	8	955,898	30	**1,229,147**	**38**
>50,000	126,750	1	914,690	12	**1,041,440**	**13**
Total	**660,436**	**29**	**2,550,785**	**115**	**3,211,221**	**144**

Source: Various Commercial Agents (Q4 2013)

Of the industrial/warehouse units available in Northern Ireland, c80% of the floor space and c79% of the buildings are available outside Belfast. Traditionally many industrial operators have sought to purchase units for owner occupation. Of the industrial/warehouse units being marketed in Q4 2013, c68% were available to let only, c10% were for sale or to let and c22% were for sale only. c65% of the units available were below 20,000 sq ft.

Based on our review of available stock, many of the industrial units available are older stock and many of the larger units in excess of 20,000 sq ft are located within older industrial estates or former large industrial complexes that have been sub-divided to provide a range of industrial/warehouse accommodation.

Until recently there has been very limited data published in respect of the industrial/warehouse market in Northern Ireland. In the information available, there is no differentiation between buildings used for industrial/manufacturing purposes and those used for storage/distribution purposes.

Savills in their "**Northern Ireland Market Report – January 2014"** state that:

> *"Our research established a notable lack of modern, good quality warehouse buildings with eaves in excess of 6m throughout NI and given the current rental levels and capital values being achieved it is unlikely that there will be any speculative space built"*

Lisney in their **"Northern Ireland Commercial Property Report 2013"** state that:

> *"Options for inward investment and potential expansion of local companies remains limited as there is still a shortage of building availability, particularly units over 50,000 sq ft".*

4.2.2 Demand for Industrial Space

4.2.2.1 Invest NI Data

Invest NI provided a breakdown of enquiries received in respect of industrial space during the period 1 April 2012 and 31 October 2013. We would emphasise that this data is only in relation to enquiries and does not provide an indication as to whether enquiries have progressed into firm requirements or the take up of space. The enquiries are summarised in the tables below.

Table 4:3: Invest NI Identified Enquiries for Industrial Space from FDI Qualifying Businesses (April 2012 – October 2013)

Requirement Size (Sq Ft)	No. of FDI Clients	Preferred Location			Total
		Belfast	Outside Belfast	NI Wide	
<5,000	7	10,000	10,500	10,000	**30,500**
5-10,000	4	40,000	20,000	0	**60,000**
10-20,000	4	35,000	20,000	0	**55,000**
20-50,000	6	90,000	80,000	100,000	**270,000**
>50,000	8	217,000	0	955,000	**1,172,000**
Total FDI	**29**	**392,000**	**130,500**	**1,065,000**	**1,587,500**

Source: Invest NI

Table 4:4: Invest NI Identified Enquiries for Industrial Space from Indigenous Qualifying Businesses (April 2012 – October 2013)

Requirement Size (Sq Ft)	No. of Indigenous Qualifying Businesses	Preferred Location			Total
		Belfast	Outside Belfast	NI Wide	
<5,000	35	33,700	71,600	13,000	**118,300**
5-10,000	17	30,000	116,000	15,500	**161,500**
10-20,000	23	80,000	219,000	102,000	**401,000**
20-50,000	19	165,000	280,000	350,000	**795,000**
>50,000	9	545,000	387,000	110,000	**1,042,000**
Total Indigenous	**103**	**853,700**	**1,073,600**	**590,500**	**2,517,800**

Source: Invest NI

The above tables indicate that over the 19 month period up to October 2013 there were a total of 132 enquiries seeking a potential total of c4.1 million sq ft of industrial/warehouse accommodation. Of this total, c30% of occupiers were seeking industrial accommodation in Belfast, c30% were considering locations outside Belfast and 40% were seeking locations across Northern Ireland. Approximately 78% of the total enquiries were from indigenous companies.

The table below combines the supply data identified in the Table 4.2 with the demand / enquires received by Invest NI as detailed in Tables 4.3 and 4.4:

Table 4:5: Demand and Supply Comparisons

Size (sq ft)	No.			Belfast Area (sq ft)			Outside of Belfast / NI Wide Area (sq ft)		
	Supply	Demand	Net	Supply	Demand	Net	Supply	Demand	Net
<10k	6	63	(57)	18,000	113,700	(95,700)	180,041	256,600	(76,559)
10-20k	48	27	21	242,437	115,000	127,437	500,156	341,000	159,156
20-50k	32	25	7	273,249	255,000	18,249	955,898	810,000	145,898
>50k	13	17	(4)	126,750	762,000	(635,250)	914,690	1,452,000	(537,310)
Total	**99**	**132**	**(33)**	**660,436**	**1,245,700**	**(585,264)**	**2,550,785**	**2,859,600**	**(308,815)**

Source: Invest NI / RSM McClure Watters

The table above suggests that there is:

- A shortfall in supply of sub 10,000 sq ft units;
- An excess in supply of units sized 10,000 sq ft – 20,000 sq ft, and also, to a lesser extent within the 20,000 sq ft – 50,000 sq ft category; and
- Whilst the table indicates that there is an undersupply of units in excess of 50,000 sq ft, Invest NI has indicated that they are not currently aware of any 'live' requirements for units of this size.

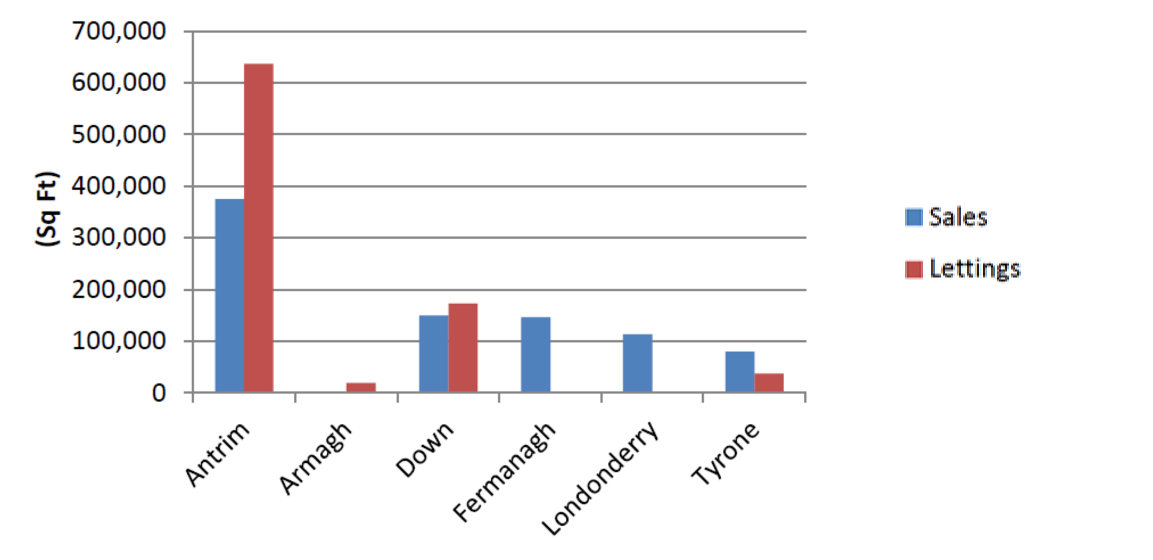
However we would urge caution with these figures as:

- They do not include the supply of 745 acres of serviced sites held by Invest NI; and
- As previously stated, the demand figures represent enquiries made to Invest NI. The strength or status of these enquiries is uncertain and the figures represent a 19th month timeframe and not all of the enquiries will have translated into firm requirements or the take up of space.

4.2.2.2 Commercial Agent Data

Savills in their **"Northern Ireland Market Report – January 2014"** report that during 2013 there was a total take up 1.7m sq ft of industrial/warehouse accommodation. This comprised 127 transactions made up of 52 sales totalling 865,268 sq ft and 75 lettings totalling 867,837 sq ft. However, there is no differentiation between industrial and storage/distribution take up. The graph overleaf illustrates the level of sales and letting take up per county.

Figure 4:1: Industrial/Warehouse Take Up 2013 by County



Source: Savills NI Market Report – January 2014

Savills state that the vast majority of sales (c85%) were from cash buyers as prices are perceived to be at an all-time low. Savills predict that total demand for 2014 will exceed 2m sq ft and they further state that:

> *"we are aware of a number of requirements of 50,000 sq ft plus for modern facilities with eaves in excess of 9m. However, as there is no available stock and with current rental levels not exceeding £3.50 - £4.00 per sq ft for space of this size, the solutions are for a client led design and build which will result in a term of no less than 10 years with rental levels reflecting "cost rent" rather than "market rent".*

Lisney in their **"Northern Ireland Commercial Property Report 2013"** (November 2013) also identify a degree of demand:

> *"since 2011, demand has been generated from within the local market…..of approximately 500,000 sq ft of requirements in 2012, all were from local companies…..we are currently aware of approximately 650,000 sq ft of live requirements, the majority of which are less than 50,000 sq ft."*

> *"An increase in demand for purchase from owner occupiers with established trading businesses is significant, with instances of competitive bidding taking place. One reason for multiple bidders is the lack of supply, particularly on a freehold basis"*

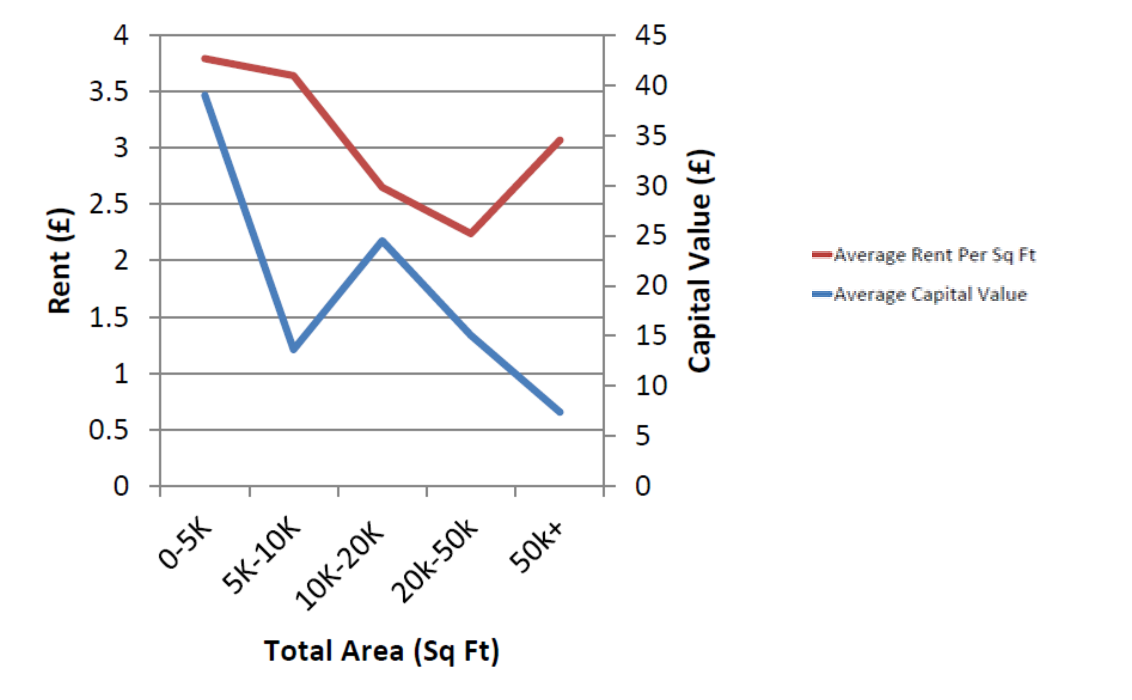
Supporting the findings of Table 4.5, Lisney in their **"Northern Ireland Commercial Property Report 2013"**, published results of their survey of industrial accommodation available in Duncrue/Dargan, Belfast; Mallusk, Newtownabbey and Carnbane/Greenbank, Newry. In this report, Lisney highlighted that:

> *"Whilst units of 10,000 sq ft have become increasingly available since 2012, units from 10,000 – 50,000 sq ft are reducing and units over 50,000 sq ft are extremely limited. In the locations surveyed, less than 1% of units are of this size"*

4.2.3 Industrial Rents and Capital Values

The graph below illustrates current average industrial/warehouse rentals and capital values per unit size.

Figure 4:2: Current Industrial Rents and Capital Values per sq ft and per Size of Unit



Source: Savills NI Market Report – January 2014

The above graph shows capital values ranging from £7 - £40 per sq ft depending on unit size. The quantity surveying firm, Bruce Shaw in their **"Average UK Construction Costs 2014"** show estimated construction costs for a medium standard warehouse of up to 10m eaves height and up to 5,000 sq m at £450 to £600 per sq m. Applying their Northern Ireland variance factor of 0.89, this equates to £400 to £534 per sq m (£37 to £50 per sq ft). These construction costs exclude VAT, professional fees, developer's profit and site costs.

On the basis of these figures, capital values are substantially below construction/development costs.

Lisney's **"Northern Ireland Commercial Property Report 2013"** notes:

> *"Tenants can currently obtain buildings from £1 per sq. ft. with short, flexible leases and funding for development cannot be obtained on these terms. For a feasible development, rents in the region of £4.50 - £5 per sq. ft. are required."*

As noted above, purchaser/development demand is primarily for owner occupiers, with very limited evidence of investor demand for completed buildings or developer demand to complete new schemes.

4.3 Office Space

4.3.1 Supply of Office Space in NI

4.3.1.1 Commercial Agent Data

The table below shows a breakdown of office accommodation that was marketed to let in Northern Ireland in Q4 2013. The data is based on details provided by the main commercial agents during the consultation process and from details published on agents' websites. The availability of accommodation is disaggregated into categories of total area available per building and whether the location is in Belfast or outside Belfast.

Table 4:6: Supply of Office Space in NI

Overall	Belfast		Outside Belfast		Total	
	Area (sq ft)	No. of Buildings	Area (sq ft)	No. of Buildings	Total (sq ft)	Total Buildings
<10,000	310,635	44	37,134	4	**347,769**	**48**
10-20,000	324,687	24	52,456	4	**377,143**	**28**
20-50,000	199,646	7	57,110	2	**256,756**	**9**
>50,000	50,617	1	55,970	1	**106,587**	**2**
Total	**885,585**	**76**	**202,670**	**11**	**1,088,255**	**87**

Source: Various commercial agents/RSM McClure Watters

The supply of office accommodation in Northern Ireland has traditionally been dominated by the market in Belfast, with limited availability within the provincial cities and towns. Based on the above tables, this continues to be the case, with c81% of the total c1.1m sq ft of available office space being located in Belfast. The office supply in the provincial towns is generally limited to properties to accommodate local professional firms, with larger office requirements dealt with on an ad hoc basis.

Table 4.7 overleaf identifies Grade 'A' office accommodation[8] available in Belfast and outside Belfast.

[8] There is no standard definition of A Grade accommodation, but in general terms it relates to new or recently refurbished offices located within the prime office location within in a city. For the purposes of this research we have assumed that it includes office within the main office area of Belfast city centre (as defined within BMAP) and provincial town centres. We have assumed that specification of Grade A accommodation would include generally open plan accommodation with carpeted raised access flooring, suspended ceilings, recessed lighting, air conditioning, fully DDA compliant and modern lifts to the upper floors. Without inspecting each building, it is difficult to be definitive on the specification of the accommodation being marketed, therefore any analysis of Grade A accommodation is to some degree subjective.

Table 4:7: Supply of 'Grade A' Office Space in Northern Ireland

Unit Area (Sq Ft)	Belfast		Outside Belfast		Total	
	Area (Sq Ft)	No. of Buildings	Area (Sq Ft)	No. of Buildings	Total (Sq Ft)	Total Buildings
<10,000	68,258	10	0	0	**68,258**	**10**
10-20,000	102,821	9	12,632	1	**115,453**	**10**
20-50,000	79,967	2	0	0	**79,967**	**2**
>50,000	0	0	55,970	1	**55,970**	**1**
Total	**251,046**	**21**	**68,602**	**2**	**319,648**	**23**

Source: Various commercial agents/RSM McClure Watters

With regard to Grade A office accommodation, this is also dominated by the Belfast market with c79% of space located in Belfast city centre. The above table suggests that as at Q4 2013 there was c250,000 sq ft of Grade A office accommodation available in Belfast City Centre. This space is accommodated within 21 buildings. The vast majority of buildings (c90%) provide accommodation of under 20,000 sq ft, with average space with of these buildings of c9,000 sq ft. This accommodation is often spread over a number of floors.

Our research suggests that there are only two buildings in Belfast, capable of providing Grade A office accommodation in excess of 20,000 sq ft, namely; The Soloist at Lanyon Plaza and Riverside (BT) Tower at Lanyon Plaza.

The Grade A accommodation outside Belfast is also limited to two buildings, with one of the buildings located on an industrial estate in Omagh.

Lisney's **"Northern Ireland Commercial Property Report 2013"** reports the following:

> *"Of total vacancy (913,722 sq ft), 250,745 sq ft of this is classified as Grade A stock….We are aware that at least 40% of the vacant Grade A stock is under active negotiation and of all the available Grade A stock only 42,000 sq ft has previously been unoccupied."*
>
> *"In addition to the questions raised over adequate availability of Grade A stock, there are constraints within the available stock. For example, many of the occupiers require large floor plates (larger than 10,000 sq ft). This stock is extremely limited with the majority of available space in the range of 2-5,000 sq ft."*
>
> *"With broader economic recovery, take up is likely to grow to levels seen prior to the recession of recent years. However, as there is currently no development in the pipeline, there are serious questions being asked now as to whether Belfast can satisfy this demand especially in the context of Foreign Direct Investment"*

Savills in their **"Northern Ireland Market Report – January 2014**" also reports a shortage of Grade A office accommodation in Belfast city centre:

> *"There is significant shortage of available Grade A stock, resulting in the inability to service current demand"*

"A further factor that is becoming increasingly central to requirements is the ability to deliver large open plan floor plates of c10,000 sq ft resulting in difficult market conditions for the older second hand stock".

"The inability to service current demand poses a real threat to economic growth as the potential to attract Foreign Direct Investment is debilitated by the lack of available stock. With completion of proposed development not expected in the short term the likelihood is that firms will source alternative space other UK cities or in Dublin/Greater Dublin, which will detract from the marketability of Belfast as a city open for business"

Lisney's **"Northern Ireland Commercial Property Report 2013"** also reports that:

"with limited development finance available it is unlikely that stock levels will improve in the near future despite planning permission for c2m sq ft currently in existence. There are very few developers financially viable to go on site speculatively…. it is likely that refurbishment activity will become part of the market. This could be simulated by the…. Business Premises Renovation Allowance".

4.3.2 Demand for Office Space

4.3.2.1 Commercial Agent Office Demand Data

Due to the traditional concentration of the office accommodation in Belfast, all the published market research only deals with the office market in Belfast City Centre.

The latest market report from CBRE **'Northern Ireland Commercial Property Outlook 2014',** reports that the take up of office accommodation in Belfast for 2013 totalled 401,484 sq ft. This represents a 46% increase in lettings compared to 2012 and 2011. However, it is noted that many of these lettings were relatively small, with 35 of the 56 lettings being for less than 5,000 sq ft and only 9 lettings extending to more than 10,000 sq. ft. It also includes the letting of c90,000 sq. ft. at Lanyon Plaza, Belfast to the Department of Finance and Personnel's Land and Property Services (LPS), which is one of the largest single office lettings in the city for a number of years and constitutes c22% of the take –up in 2013.

CBRE estimate that 60% of the take-up in 2013 was for Grade A office space, which equated to a total of c240,890 sq ft.

The following tables outline the take-up of office space by size and by business sector during the period from Q1 2011 to Q4 2013.

Table 4.8 shows that during 2011 and 2012 c60% of take up was for accommodation under 10,000 sq ft, falling to c 40% in 2013. However, the 2013 figures are skewed by the letting to LPS, therefore if this letting is ignored; the lettings are almost evenly split between lettings below and above 10,000 sq ft. The majority of take up for each year was for Grade A office accommodation, with an average take up of c225,000 sq ft over the past 3 years.

Table 4.9 highlights that over the past 3 years that, with the exception of the letting to Land & Property Services in Q2 2013, demand from the public sector has been relatively limited, with the majority of demand coming from the professional, IT/technology and financial services sectors.

Table 4:8: Annual Take –Up of Office Space in Belfast by Size - 2011 – 2013

Letting Size	2011		2012		2013	
	Area (Sq Ft)	%	Area (Sq Ft)	%	Total (Sq Ft)	%
<5,000	57,750	21	101,750	37	**84,312**	**21**
5-10,000	101,750	37	68,750	25	**76,282**	**19**
10-20,000	38,500	14	49,500	18	**92,341**	**23**
>20,000	77,000	28	55,000	20	**148,549**	**37**
Total	**275,000**		**275,000**		**401,484**	
Grade A	**c220,000**	**80%**	**c215,000**	**78%**	**c241,000**	**60%**

Source: CBRE Research / RSM McClure Watters

Table 4:9: Annual Take – Up of Office Space in Belfast by Sector - 2011 - 2013

Sector	2011		2012		2013	
	Area (sq ft)	%	Area (sq ft)	%	Total (sq ft)	%
Public Sector	22,000	8%	19,250	7%	**144,534**	**36%**
Professional	79,750	29%	74,250	27%	**52,193**	**13%**
Manufacturing /Energy	5,500	2%	0	0	**4,015**	**1%**
Financial Services	46,750	17%	60,500	22%	**56,208**	**14%**
Consumer Services	2,750	1%	24,750	9%	**44,163**	**11%**
Computers/ Hi Tech	82,500	30%	55,000	20%	**40,148**	**10%**
Business Services	35,750	13%	41,250	15%	**60,223**	**15%**
Total	**275,000**		**275,000**		**401,484**	

Source: CBRE Research / RSM McClure Watters

Based on information received from the commercial agents, a summary of known requirements for office accommodation (all grades of space) in Belfast by size and sector is set out in the tables below. Agents indicate that the majority of local requirements are from occupiers who are coming to lease ends over the next 3 years and are considering their options with regard to either moving to modern Grade A office accommodation or renegotiating with their existing landlord. The commercial agents reported that the vast majority of requirements are for city centre located offices rather than edge of city centre, office park or suburban locations.

Table 4:10: Current Requirements for Office Space by Size

Requirement Size (sq ft)	Total Area (Sq Ft)	No. of Requirements
<5,000	14,000	4
5-10,000	76,000	9
10-20,000	133,000	9
20-50,000	417,000	12
>50,000	460,000	3
Total	**1,100,000**	**37**

Source: Various Commercial Agents – Q4 2013

Table 4.10 shows that:

- Approximately two thirds of the requirements are for office accommodation in excess of 10,000 sq ft;
- There are potentially 15 requirements for accommodation in excess of 20,000 sq ft. Based on our research on the availability of Grade A office in Belfast city centre, there are currently only 2 buildings that are capable of accommodating a requirement in excess of 20,000 sq ft;
- Averaging the above requirements out over the next 3 years, equates to requirements of c 360,000 sq ft per annum, which is broadly in line with historic take-up levels.

Table 4:11: Current Requirements for Office Space by Sector

Business Sector	Indigenous (Sq Ft)	FDI (Sq Ft)	Total (Sq Ft)
Law/accountancy/professional services	299,000		
IT/Telecoms	303,000		
Financial Services	27,000		
Insurance	21,000		
Outsourcing/call centre	25,000	70,000	95,000
Energy/Utilities	105,000		
Media	150,000		
Medical/pharmaceutical	25,000		
Public Sector	25,000		
Total	**1,030,000**	**70,000**	**1,100,000**

Source: Various Commercial Agents – Q4 2013

Table 4.11 highlights that, in line with take-up over the past 3 years, the largest requirements are from the professional and IT/telecoms sectors.

4.3.2.2 Invest NI Office Demand Data

Invest NI provided a breakdown of enquiries received in respect of office accommodation during the period 1 April 2012 and 31 October 2013. We would emphasise that this data is only in relation to enquiries; and does not provide an indication as to whether enquiries have progressed into firm requirements or the take up of space. These enquiries are summarised in the tables below.

Table 4:12: Invest NI Identified Office Space Enquiries from FDI Qualifying Businesses (1 April 2012 - 31 Oct 2013)

Requirement Size (Sq Ft)	No. of FDI Qualifying Businesses	Preferred Location			Total
		Belfast	Outside Belfast	NI Wide	
<5,000	60	101,900	11,800	3,000	**116,700**
5-10,000	12	107,500	0	0	**107,500**
10-20,000	14	208,500	0	35,000	**243,500**
20-50,000	9	160,000	95,000	0	**255,000**
>50,000	1	100,000	0	0	**100,000**
Total FDI	**96**	**677,900**	**106,800**	**38,000**	**822,700**

Source: Invest NI

Table 4:13: Invest NI Identified Office Space Enquiries from Indigenous Qualifying Businesses (1 April 2012 - 31 October 2013)

Requirement Size (sq ft)	No. of Indigenous Qualifying Businesses	Preferred Location			Total
		Belfast	Outside Belfast	NI Wide	
<5,000	41	49,300	34,500	7,000	**90,800**
5-10,000	11	63,500	40,000	0	**103,500**
10-20,000	8	112,000	35,000	0	**147,000**
20-50,000	4	120,000	35,000	0	**155,000**
>50,000	1	100,000	0	0	**100,000**
Total Indigenous	**65**	**444,800**	**144,500**	**7,000**	**596,300**

Source: Invest NI

The preceding tables indicate that over the 19 month period there were a total of 161 enquiries seeking a potential total of c1.4 million sq ft of office accommodation. Of this total, c1.12m sq ft (c80%) was for office accommodation in Belfast. Approximately 59% of the total enquiries (i.e. 822,000 sq ft of office space) relates to FDI qualifying businesses. This compares to the commercial agent feedback which indicates requirements totalling of c1.1m sq ft, of which 70,000 sq ft relates to FDI companies.

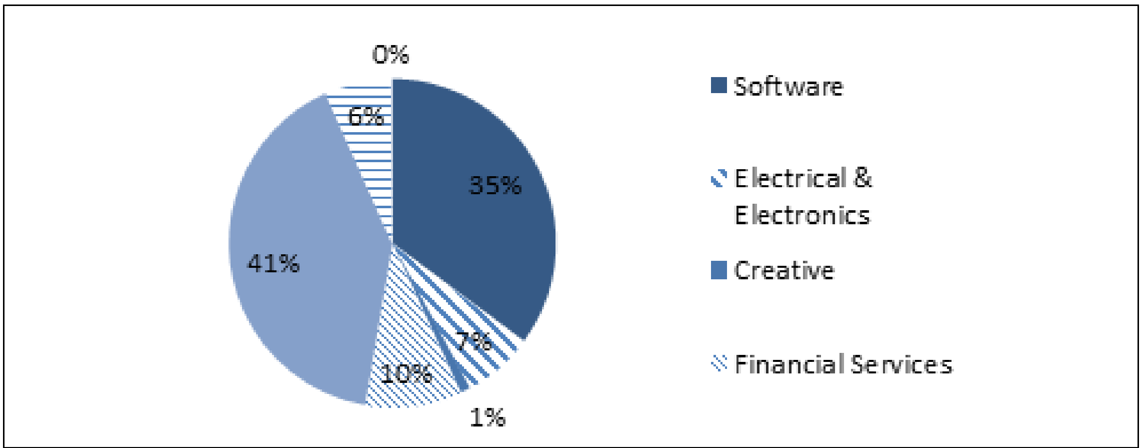
Whilst the majority of Invest NI FDI and indigenous qualifying businesses were seeking office accommodation of less than 10,000 sq ft, there were 24 FDI qualifying businesses and 13 indigenous qualifying businesses seeking accommodation in excess of 10,000 sq ft. This represented a total requirement of 770,500 sq ft.

Invest NI also provided data relating to office based job announcements by FDI companies for the years 2011/12, 2012/13 and 2013/14. The Invest NI data contained actual numbers of jobs promoted, the location and sector of the project.

We have used this data to assess the extent to which enquires translate into actual space requirements. Our analysis of this data identifies that over the 3 year period:

- 38 (75%) out of 51 FDI projects were located within Belfast;
- 3,649 (85%) of the 4,307 jobs created by the 51 projects were located in Belfast;
- The majority of jobs created (68%) related to the expansion by an existing investor from outside NI; and as illustrated by Figure 4.3 below;
- 75% of jobs created were generated by the Software and Business Services sectors.

Figure 4:3: FDI Jobs Created by Sector (2011 – 2014)



Source: Invest NI/RSM McClure Watters

In order to estimate the office space requirements from FDI qualifying businesses, we applied an average space requirement of 100 sq ft per person for each job created. As reflected in Table 4.14 - Table 4.16, this analysis identifies that:

- 37 (73%) out of 51 FDI projects required office facilities of 10,000 sq ft or less;
- Only 6 (12%) required accommodation of 20,000+ sq ft;
- Over the three years profiled, the average amount of space required was 143,000 sq ft and the average space requirement per FDI project was c8,500 sq ft; and
- In the years 2011/12 and 2012/13, 5 FDI projects required office accommodation of 20,000+ sq ft, totalling c133,000 sq ft.

An average annual FDI space requirement of 143,000 sq ft equates to c27.5% of the level of FDI enquiries detailed in Table 4.12, when annualised.

Table 4:14: FDI Space Requirements (by Number of Projects) by Year

Area (sq ft)	Estimated Spatial Requirement (sq ft) by Number of Projects			
	2011/12	2012/13	2013/14	Total
<5,000	11	11	7	**29**
5-10,000	3	5	0	**8**
10-20,000	2	3	3	**8**
20-50,000	2	3	0	**5**
>50,000	0	0	1	**1**
Total	**18**	**22**	**11**	**51**

Source: Invest NI/RSM McClure Watters

Table 4:15: Total FDI Space Requirements by Year

Area (sq ft)	Total FDI Spatial Requirements (sq ft) By Category			
	2011/12	2012/13	2013/14	Total
<5,000	11,200	25,300	8,000	**44,500**
5-10,000	15,500	33,900	0	**49,400**
10-20,000	21,800	37,700	44,400	**103,900**
20-50,000	58,600	75,000	0	**133,600**
>50,000	0	0	99,300	**99,300**
Total	**107,100**	**171,900**	**151,700**	**430,700**

Source: Invest NI/RSM McClure Watters

Table 4:16: Total/Average FDI Office Space Requirements by Project

Year	Total Office Space Requirement (sq ft)	Number of Projects	Av. Space Requirement by Project
2011/12	107,100	18	5,950
2012/13	171,900	22	7,814
2013/14	151,700	11	13,791
Total	**430,700**	**51**	**8,445**

Source: Invest NI/RSM McClure Watters

In terms of going forward, Table 4.17 below presents Invest NI projections for FDI related office jobs for each year commencing 2011/2012. This table illustrates that there has been a considerable degree of variance between the forecast and actual number of jobs achieved in the years 2011/2012 and 2012/2013. However, over the 3 year period 2011/12 – 2013/14, there is only a 2% variance (i.e. delivery equated to 86 jobs lower than forecast).

Importantly, the Invest NI 2014/15 forecast for FDI (office based) jobs is highest over the 4 years profiled and significantly higher than that profiled for the years 2011/2012 and 2012/2013, which suggests that demand for office space will also be higher than the 3 year average of c144,000 sq ft.

Table 4:17: Forecast FDI Office Based Jobs by Year

Year	Office Based FDI Jobs Forecast[9]	Actual Jobs Achieved	Variance	% Variance
2011/12	2,214	1,071	-1,143	-52
2012/13	513	1,719	1,206	235
2013/14	1,494	1,517	23	2
2014/15	2,249	n/a	n/a	n/a

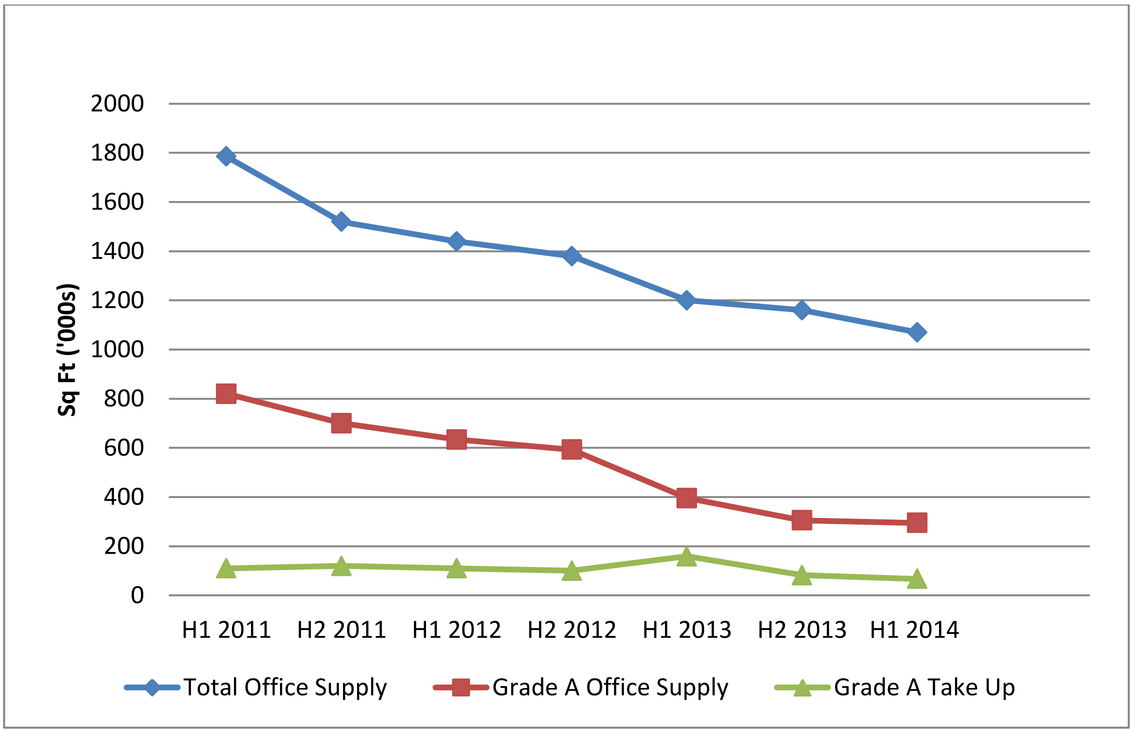
Source: Invest NI/RSM McClure Watters

4.3.3 Estimated Forecast of Grade A Office Supply and Demand 2014-18

Based on our review of available accommodation and market analysis from CBRE and Lisney, the supply of Grade A office accommodation in Belfast City Centre at the end of 2013 was c250-300,000 sq ft. As set out in Table 4.8, the take up of Grade A accommodation in the period 2011-2013 averaged c 225,000 sq ft per annum (c72% of total take up). The absence of new development and refurbishment projects since 2008 has resulted in a steady reduction of the overall supply and supply of Grade A office accommodation. This is illustrated by Figure 4.4 overleaf.

[9] Figures quoted as Forecast are those that are considered to have a likelihood of 50% or more of progressing

Figure 4:4: Belfast Office Supply and Take-Up H1 2011 – H1 2014



Source: CBRE Market reports/RSM McClure Watters

In forecasting the future supply of Grade A office accommodation in Belfast we have considered the following:

- The potential for new Grade A office accommodation to be constructed over the period 2014-18 by considering buildings under construction, current planning permissions and current planning applications. Where sites and buildings currently have full or outline planning permission for office development, we have considered whether the development is likely to be commenced prior to planning expiry or by the end of 2018; and
- Buildings currently being marketed and buildings likely to become vacant during this period, which may be suitable for refurbishment or redevelopment to Grade A standard, subject to obtaining planning permission.
- Our analysis is primarily in respect of the potential for additional Use Class B1(a) office accommodation. However, there are a number of schemes within the Titanic Quarter which include a mix of Class B1(a) offices, call centre offices or research and development offices. We have included these schemes within our analysis as this type of accommodation could potentially provide accommodation for Invest NI qualifying companies.

We would emphasise that this forecast is based on best estimates based on information currently available. It is very difficult to be definitive with regard to buildings that may become available due to 'market churn' or other potential schemes that may emerge.

A summary of the overall potential Grade A office supply pipeline based the above analysis is detailed in Table 4:18 overleaf.

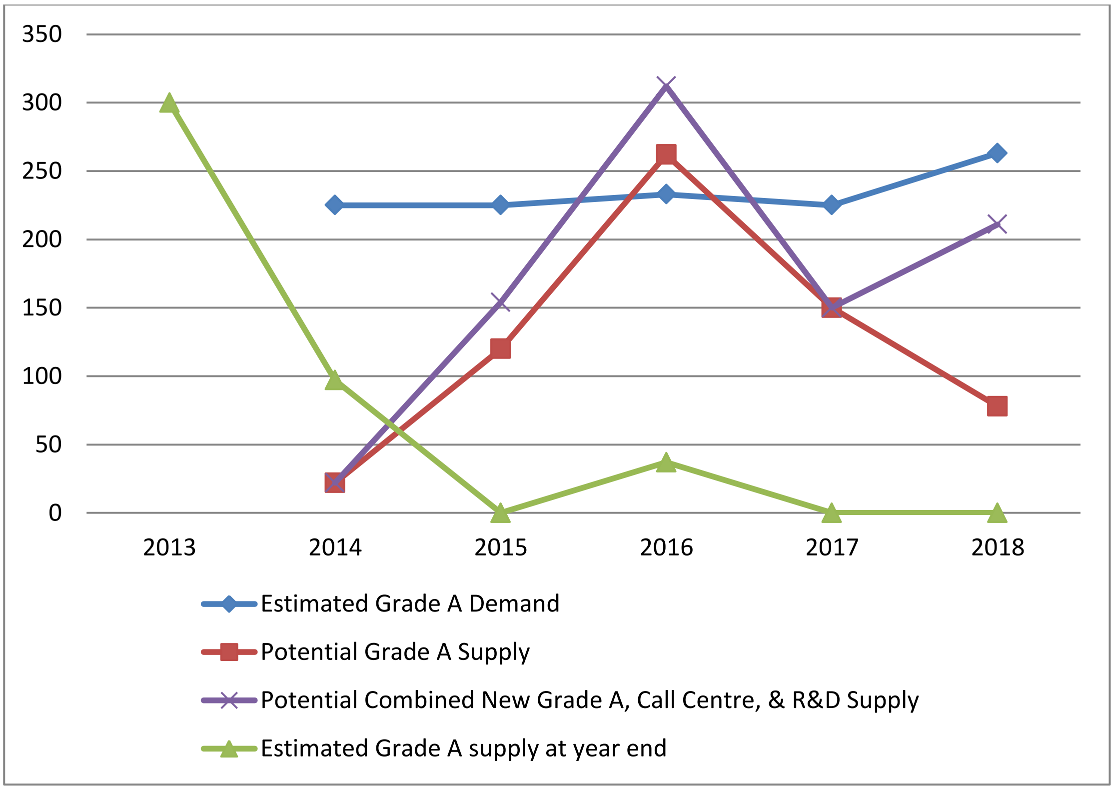
Table 4:18: Belfast Grade A Office Supply Pipeline

Planning Status	No. of Buildings	Net Area Sq Ft ('000s)
Under Construction	1	68
Full Planning Permission Granted	4	158
Outline Planning Permission Granted	0	0
Full Planning Application	3	237
Outline Planning Application	0	0
Potential Refurbishment	6	169
Call centre and R&D accommodation	3	217
Total	**17**	**849**

Source: RSM McClure Watters

On the assumption that all the above schemes are implemented within the time scale, we estimate that the potential Grade A office supply and demand for the period 2014-18 can be illustrated in the graph

Figure 4:5: Belfast Grade A Office Supply and Demand Forecast (2014 – 2018)



Source: RSM McClure Watters

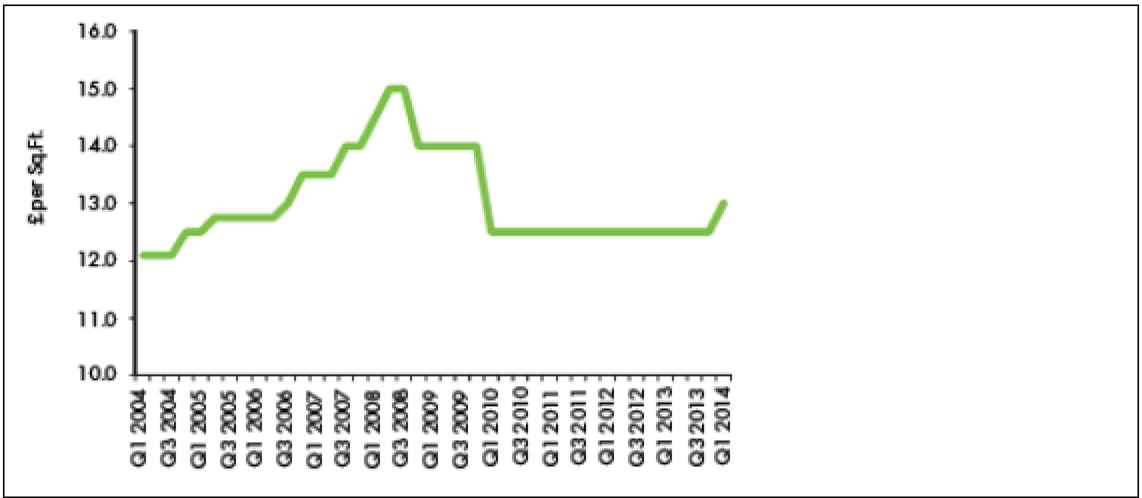
The above graph indicates that by the end of 2014, the supply of Grade A office accommodation in Belfast city centre is estimated to be just under 100,000 sq ft. The estimated new supply of c120,000 sq ft to be provided during 2015, will be insufficient to meet the average annual demand of c225,000 sq ft. However, it is estimated that there is potential for c260,000 sq ft of Grade A space to be developed in 2016, which would be sufficient to meet the estimated average annual demand. During 2017 and 2018, based on current market information, the estimated supply pipeline falls away again to levels that would be insufficient to meet average annual demand. The development taking place during 2015 and 2016 would therefore need to provide sufficiently robust market evidence to restore confidence that will encourage further schemes to come forward.

4.3.4 Office Rents and Capital Values

The published office market reports show that rents for prime Grade A office accommodation in Belfast during 2013 to be around 12.75 per sq ft. Savills in their ***"Northern Ireland Market Report – January 2014"*** state that *"With the exception of a slight peak in values at the end of 2007, prime rental levels have remained constant at c£12.75 per sq ft with secondary stock from £6 - £10 per sq ft."*

The graph below illustrates the historic trend of prime Grade A rental Levels in Belfast.

Figure 4:6: Graph showing Prime Office Rents in Northern Ireland 2004-2014



Source: CBRE - Northern Ireland Property Market Outlook 2014

However, a number of the market reports indicate that the reported shortage of Grade A office stock in Belfast city centre will lead to upward pressure on rents. CBRE's **"Northern Ireland Property Market Outlook 2014"**, states that

> *"Although there are a number of new office developments planned, which will ultimately ease the shortage of Grade A office accommodation in the city, it will be some time before these schemes come on stream. We therefore expect to see rental growth emerging in the office sector in Northern Ireland over the next 12 months. We expect prime office rents in Belfast to increase by 20% to reach £161.46 per square metre (£15 per sq ft) by year-end".*

Savills in their **"Northern Ireland Market Report – January 2014"** state that

> *"with the pressure on the limited supply of stock expected to continue into 2014, there is the potential for upward pressure on both headline and net effective rental levels as competition increases for the limited available space"*

CBRE's **"Bi Monthly Research Report – September 2014"** reports that prime Belfast office rents have increased over the summer months to c£14 per sq ft.

We understand that Belfast Harbour Commissioners are marketing their City Quays development at c£14.50 per sq ft.

Office buildings are primarily purchased by investors rather than owner occupiers. The capital values of office buildings are therefore primarily driven by the rents, lease lengths and tenant covenant strength. A number of office buildings in Belfast were sold in Q4 2013, with summary details set out in the table below.

Table 4:19: Sales of Office Properties in Belfast in 2013

Property	Sale Price	Yield	Date	Comments	Purchaser
James House, Cromac Ave, Gasworks, Belfast	£10.5m	12.97%	Nov -13	Let to DFP on 15 year lease from 1 Nov 2004.	UK Pension Fund
Law Society House, 100 Victoria Street, Belfast	£4.25m	10.96%	Oct - 13	Multi- let building with 67.9%of income secured to government tenants	Private Investor
74-76 Dublin Road, Belfast	£1.3m	10.41%	Oct -13	Partially let to European Commission on a 15 year lease from 2009. 1-3 floors vacant	Private Investor

Source: Savills NI Market Report – January 2014

The above table illustrates that whilst there is investor demand for office investment properties in Belfast, the yields achieved are relatively high, with the investors being attracted by the high income return.

A number of the market reports have provided comparisons of prime office rents and yields in Belfast against office rents in other regional cities in the UK and Ireland, refer to Table 4.20 below.

Table 4:20: Prime Office Rents and Yields in Regional Cities in UK and Ireland – Q1 2014

City	Prime Office Rent £ per sq ft	Prime Yields	Prime Capital Values £ per sq ft
Manchester	£30.00	5.75%	£495
Birmingham	£28.50	5.75%	£465
Bristol	£27.50	6.25%	£415
Edinburgh	£28.50	6.00%	£450
Glasgow	£27.50	6.00%	£435
Liverpool	£19.50	7.25%	£270
Southampton	£18.00	7.00%	£245
Dublin	£29 (€35)	5.25%	£505 (€615)
Belfast	**£13.50**	**7.75%**	**£165**

Source: CBRE National Office Review – Feb 2014 & Ireland Bi-Monthly Report – March 2014

The above table illustrate that prime rents in Belfast are 25% - 55% lower than prime rents in other comparable UK cities and c50% lower than those in Dublin. Even if prime rents in Belfast rose to £15 per sq ft during 2014, as anticipated by some agents, they will still be at a substantial discount to other UK cities.

In addition, to the lowest rents, Belfast has the highest capitalisation yield, with the result that capital values in Belfast are 33% - 66% lower than other comparable UK cities. Whilst this may be attractive to investors and owner occupiers, it has a major impact on the financial viability of office development in Belfast. Agents report that increased investor demand is likely to lead to a decrease in yields.

5 STAKEHOLDER CONSULTATION

5.1 Introduction

In order to augment our desk based research, we have carried out a wide ranging programme of consultation to obtain stakeholder views on the following:

- The current supply of industrial and office space;
- The current demand for industrial and office space;
- Market failures impacting on property development (if applicable); and
- Relevance of existing Invest NI property interventions.

The table below provides further details of organisations we consulted.

Table 5:1: Overview of Key Consultees

- **Invest NI Property Solutions Team and Invest NI Regional Managers;**
- **DETI Policy & Evaluations Unit;**
- **DETI European Support Unit;**
- **Land & Property Services;**
- **Planning Service;**
- **Local Councils(x 8);**
- **Commercial estate agents (x15);**
- **Property developers (x10);**
- **Lending Institutions (x7);**
- **Invest NI qualifying businesses who have availed of Property Solutions Report (x5);**
- **Invest NI qualifying businesses who have chosen not to avail of the property support offered (x6);**
- **Strategic Investment Board; and**
- **Benchmark Agencies (x4).**

5.2 Supply and Demand for Industrial Space

5.2.1 Supply of Industrial Space

Our consultation with commercial agents highlighted that:

- There is a significant supply of industrial buildings available for sale or to let, however, much of this accommodation would be more suitable for distribution warehousing/storage facility rather than manufacturing space and the accommodation is likely to require specialist refurbishment to make it suitable for particular manufacturing occupiers;
- With little or no development taking place since 2008, the existing stock is becoming dated and there is a general lack of modern industrial units with eaves heights in excess of 6m. In particular, there is a lack of large industrial units in excess of 50,000 sq ft. The larger units that are available tend to be situated within older industrial complexes constructed during the 1960's/70's; and
- Speculative development of industrial units is not likely to be commercially viable for the foreseeable future. This is due to low rental levels resulting in capital values of existing buildings which are approximately half of the construction costs.

Commercial agents and developers were strongly of the view that a new supply of industrial units will only be made available with the assistance of property interventions. Agents and developers suggest that were industrial occupiers are seeking new buildings, the pricing of these buildings would have to reflect construction costs, site values and other development costs rather than market values. A potential government intervention may be to provide gap funding for developers. The current Property Assistance Scheme is only available to Invest NI qualifying businesses as part of a larger economic aid package. One developer suggested the Private Developer Agreement (PDA) scheme previously run by the IDB could provide a suitable model. The PDA scheme provided gap funding between development costs and market values, with the developer working in conjunction with an Invest NI qualifying business to provide the required accommodation.

Consultation with Invest NI Regional Managers suggests that there is sufficient supply of industrial land and serviced sites across the regional areas at present, with the potential exception of the Omagh District Council area, where less than 5 acres of serviced sites are available.

Consultation with LPS noted that there is an oversupply of industrial land. LPS is not aware of any speculative industrial development taking place, as development of industrial accommodation is not commercially viable due to the shortfall between rents/capital values and site and construction/development costs. They do not expect this position to change in the foreseeable future.

LPS also mentioned that in 2004/5 they had previously managed the procurement of industrial and office buildings on behalf of Invest NI through the Speculative Build Initiative, which provided gap funding.

5.2.2 Demand for Industrial Space

The vast majority of commercial agents reported that whilst there is demand from warehousing/distribution occupiers, demand from industrial occupiers is very limited and ad hoc in nature. No commercial agent reported that they were aware of any FDI industrial/manufacturing demand.

The limited demand that does exist is primarily from small indigenous manufacturing businesses seeking units of 2-5,000 sq ft. Agents reported areas of localised demand e.g. in Co. Tyrone, where there is good demand for stand-alone units of 10-15,000 sq ft from engineering companies involved in the manufacture of mining/quarrying equipment.

This view was shared by the Invest NI Regional Managers, who indicated that there was sufficient lands and buildings available to meet existing demand, with the exception of the Omagh area (Co.Tyrone) where it was suggested there was a need for more industrial land. The information provided by Invest NI on enquiries received from April 2012 to Oct 2013, indicates that during this period there were 19 enquiries totalling c366,000 sq ft with regard to industrial premises in Co. Tyrone.

Agents reported that due to the low level of market rents and capital values, it is currently not commercially viable to develop industrial buildings. Industrial building rents are currently £2-3 per sq ft with yields at 10% to 14%. As a result capital values of existing buildings are £15 - £25 per sq ft, whereas construction costs (excluding site) are approximately £40-50 per sq ft.

Commercial agents reported good levels of demand from owner occupiers seeking to purchase existing warehouse buildings to take advantage of the low capital values. These buyers are predominantly cash buyers. Bank funding for property for purchase/development remains to be limited, however, in consultation with banks a number stated that if a manufacturing concern was seeking to construct a new factory building, they would consider the underlying strength of the operational business in addition to the property development feasibility.

Consultation with LPS indicated that demand for industrial sites is around 10-15% of the level of demand at the peak of the market in 2007. LPS stated that demand is very much from indigenous firms, as local industrial occupiers like to stay close to the locality in which the owners formed the company, e.g. they have recently agreed the sale of c7 acres to an engineering firm in Dungannon.

This lack of demand is reflected in the Indicative Site Prices on serviced industrial sites provided by LPS to Invest NI on a quarterly basis. LPS stated that Indicative Site Prices at Q3 2013 were c20-25% of the price levels achieved at the peak of the market and they continue to fall.

LPS also mentioned that in 2004/5 they had previously managed the procurement of industrial and office buildings on behalf of Invest NI through the Speculative Build Initiative. One such project was the development of c57,000 sq ft of Grade A office accommodation at Timber Quay, Strand Road, Londonderry in which the developer speculatively developed the accommodation, with Invest NI providing gap funding of c 25% and covering all landlord's void costs (rates, service charge, insurance) for a 5 year period from completion of the building. Invest NI also marketed the accommodation to their qualifying businesses.

5.2.3 Summary of Industrial Space Market

The primary research suggests that there is limited demand from industrial occupiers and therefore in general terms, there is a sufficient supply of industrial accommodation and sites in the Northern Ireland market. However, there are some areas of localised demand. Commercial agents also state that stock is becoming dated and there is a general lack of good quality, modern industrial accommodation, particularly units with eaves height over 6m. There is also an undersupply of large modern units of 50,000 sq ft plus.

5.3 Supply and Demand for Office Space

5.3.1 Supply of Office Space

Commercial agents noted that the vast majority of the supply of office accommodation in Northern Ireland is located within Belfast City. There is only very limited stock within the provincial towns and cities.

The majority of agents commented that traditionally the office sector in Belfast has been heavily influenced by the strong demand from public sector occupiers who have been able to negotiate low rental levels and non-institutional lease terms. They stated that the public sector's strong negotiating position has resulted in rents being maintained at low levels and as a consequence the quality of specification of office accommodation has deteriorated, as developers have had to 'cut their cloth' accordingly.

The majority of agents stated that Grade A space in Belfast is of a lower specification compared to Grade A office accommodation in other UK cities and Dublin. A number of agents stated that GB based and FDI clients have, in general, not been impressed by the quality or choice of office accommodation available in Belfast.

Agents stated that in order to compete with other locations, the specification of office accommodation needs to have to improve, but in order for this to happen, rents will have to increase.

Invest NI Regional Managers also indicated that there is very limited (if any) Grade A space available in their regions.

Commercial agents are of the opinion that there is an under supply of good quality modern Grade A accommodation. Of the supply that is available, the unit sizes are generally small (under 5,000 sq ft) or split over a number of floors. Agents stated that in particular, there is an under supply of modern open plan office accommodation with floor plates of c10,000 sq ft. At present, if an occupier is seeking in excess of 10,000 sq ft, it could only be accommodated over a number of floors, which is likely to be less attractive to larger corporate/FDI occupiers. Commercial agents and developers feel that the development of new office accommodation is currently not commercially viable due low rental levels and high yields in comparison to increased construction/development costs required to construct Grade A office accommodation.

Agents and developers also stated that development funding is not currently available. These issues will be discussed in details in Section 5.4 below.

Agents and developers stated that based on their development appraisals, rental levels of £15 - £18 per sq ft would need to be achieved in order to make office development viable. Rents at this level would still be lower than rents achieved in other comparable UK cities and Dublin.

5.3.2 Future Developments

Our consultations highlighted the following future developments within Belfast City Centre:

- Planning permission has been granted for c1.0m. sq ft of office space in Belfast City Centre and Titanic Quarter, with current planning applications totalling c500,000 sq ft. In addition, planning permission has been granted for c600,000 sq ft of financial services/research and development space at Titanic Quarter. However at present, there is no evidence of these permissions progressing beyond the planning stage;
- Belfast Harbour Commissioners are currently developing c68,000 sq ft net of Grade A office accommodation over 5 storeys (i.e. floor plates of c13,000 sq ft) at that their City Quays 1 office building. Our discussions with Harbour Commissioner representatives identified that floorplate sizes/layouts and the specification of the building was specifically designed to suit the requirements sought by IT and financial services FDI occupiers. The building is expected to be completed by Q1 2015. Marketing has commenced and quoting rents are c£14.50 per sq ft. We understand that there has been initial interest from occupiers. The development is being entirely self-funded by Belfast Harbour Commissioners, who will retain the completed development; and
- In keeping with the Strategic Investment Board's (SIBs) region wide Asset Management Strategy, greater rationalisation of the public sector's office estate may involve government seeking to exit leases to reduce overheads. SIB has estimated that there is potential for c473,000 sq ft of office space within Belfast City Centre to be vacated by government occupiers over the next 5 years, albeit that the majority of space would not be available until towards the end of this period. SIB has suggested that government staff vacating these leased buildings could be relocated into the government's freehold estate. This may result in an increase in the supply of Grade A office space in Belfast City Centre by presenting opportunities for the refurbishment or enhancement of the vacated buildings to the level of finish required by FDI occupiers.

Outside of Belfast City Centre, there are the following developments:

- c19,200 sq ft of Grade A office accommodation located on the periphery of Belfast city centre at Weaver's Court, Linfield Road, was completed in Q2 2014. .
- There are proposals to develop 35,000 sq ft of Grade A office space within the Invest NI owned Forthriver Industrial Park in West Belfast. Whilst this building could be able to provide floor plates of c10,000 sq ft, it is anticipated that the building will be subdivided and utilised by small knowledge economy businesses, many of which are expected to transfer from Belfast Metropolitan College's E3 campus (opposite the Forthriver Industrial Park), which provides incubator units for the sector.
- Commercial agents reported that a number of developers were considering the refurbishment of vacant office buildings in Belfast City Centre. These schemes would seek to take advantage of the Business Premises Renovation Allowance (BPRA) scheme offered by HM Revenue and Customs (HMRC) in relation to capital allowances on the refurbishment costs. However, the commercial agents also reported that developers were having difficulty in finding suitable buildings, as the vacant buildings currently available are not capable of being refurbished to Grade A standard due to the structural limitations of the buildings, e.g. low floor to ceiling heights and floor plate sizes/depth. To date there has been very limited refurbishment activity and agents are not aware of any BPRA based scheme having been undertaken. Commercial agents also reported that some occupiers'

preference would be for modern/newly office constructed accommodation rather than refurbished accommodation.

5.3.3 Demand for Office Space

Commercial agents identified that:

- There has been a good level of demand for Grade A office accommodation in Belfast and in particular, Belfast City Centre. As has traditionally been the case, there is very limited demand for office accommodation in the provincial towns and cities;
- They expect demand to be created through market churn, with a number of major lease expiries due over the next 3 years. A number of major occupiers have already placed requirements out to test the market and consider their options. Agents expect that take-up will be at around historic levels of c350,000 sq ft per annum over the next 2-3 years; occupiers are primarily seeking Grade A accommodation in city centre locations, as the availability of public transport and a range of amenities in proximity to their offices is considered by many firms to be important to attract and retain staff; and
- Tenants continue to seek shorter/flexible lease terms, typically for 5 years or 10 years with a break option after 5 years. Agents stated these shorter term leases impact on market values and make it more difficult to obtain bank funding.

Agents and developers also stated that based on their appraisals, office rents need to rise to in excess of £15 per sq ft in order to be make development commercially viable. Given that rents at this level would still be considerably lower than other UK cities, agents feel that corporate and FDI occupiers would be prepared to pay rents at these levels in order to secure a building in the right location and with the required Grade A specification.

Consultation with an Invest NI Investment Manager suggested that there is demand for range of office accommodation, mainly around Belfast, and that they are aware of immediate client requirements for c50,000 sq ft of office accommodation. Demand outside Belfast is limited as the larger scale companies will only consider towns with populations of 30-40,000 as they feel that only these towns can provide the work force with the required skills/qualifications. It was suggested that demand is largely from the following sectors:

- **Call Centres** – these companies have larger space requirements but generally are more cost conscious than other operators and therefore more likely to seek lower specification of accommodation. However they would require, good public transport connections i.e. accessible via one journey, therefore generally prefer city centre/town centre locations;
- **IT / Technology** – these companies are generally seeking Grade A space in a central location but require a smaller amount of space e.g. under 5,000 sq ft. The often seek serviced office accommodation as an initial step into the NI market, before deciding to rent larger office space; and
- **Business & Professional Services/Financial Services/Legal Back Office** – Generally have larger Grade A office requirements in a central location, with open plan floor plates sized between 6-12,000 sq ft and good public transport / connectivity.

It was highlighted that Invest NI qualifying businesses looking for Grade A space generally seek:

- Open plan/developer's shell to accept tenant's fit out (floor plates 6-12,000 sq ft);
- Carpeted, raised access floors;
- Suspended ceilings;
- Air conditioning;
- Back-up power supply; and
- Communications room.

Consultation with Invest NI Regional Managers would largely concur with this view, however it was suggested that there is a need for a level of Grade A space in Southern and North Eastern regional areas, as they have had expressions of interest from FDI in the past which could not be met.

Agents reported that there is a good level of investor interest in prime office investment properties in Belfast, with potential purchasers including local investors, UK and European institutional funds and UK property companies. Sales to date have been for shorter term income properties with capitalisation yields at 8-11%. Agents report that the proposed sale and lease back by RBS of the Ulster Bank HQ, Donegall Square East on a 15 year lease attracted around 20 bids and was agreed at a yield close to 7%. Whilst the sale is no longer going to proceed, agents feel that this is an indication of the strength of investor demand for a prime office let to a strong covenant on a long lease terms.

5.4 Market Failures

5.4.1 Industrial Market

Based on our consultations, private developers are currently not prepared to commence the speculative development of industrial buildings. This is due to the following:

- **Demand** – Limited, ad hoc demand from industrial occupiers; and
- **Commercial Viability** – Agents, developers and LPS reported that due to the low market rent levels and capital values, it is currently not commercially viable to develop industrial buildings. Industrial rents are currently £2-3 per sq ft with yields at 10% to 14%. As a result capital values of existing buildings are £15 - £25 per sq ft, whereas construction costs (excluding site) are approximately £40-50 per sq ft.

Owner occupiers are seeking to purchase existing buildings rather than construct new buildings, and, if an industrial occupier requires a building of a larger floor area or specialist specification, it is likely that a bespoke unit would need to be constructed, with rents based on construction/development costs rather than open market rents.

5.4.2 Office Market

Based on our consultations, whilst the demand for Grade A office accommodation exceeds supply, private developers are currently not prepared to commence the construction of office buildings. This market failure is due to the following:

- **Commercial Viability** - Office development is not currently commercially viable due to the low rental levels, high capitalisation yields and increased construction costs required to provide Grade A specification office;
- **Development Funding** – Banks still have limited appetite to provide development funding;
- **Developer appetite** for the development risk; and
- **Information Asymmetry**.

Each of these issues is considered below.

Commercial Viability

Headline rents for Grade A office accommodation are currently £13.50 - £14.00 per sq ft.

Yields on prime office buildings are in the range of 7.0% - 11% depending on lease length and covenant strength. Capital values of prime office buildings are therefore in the range of £110 - £190 per sq ft. Given that occupiers are currently seeking shorter lease terms or 5 year break clauses, the yields applied to new developments will be at the upper end of the yield range and consequently, capital values will be at the lower end of the range.

Agents and developers stated that in order to provide Grade A specification offices which are comparable to other UK cities, construction costs will be in the range of £120 - £150 per sq ft (excluding site cost, professional fees and finance costs). Traditionally, office development in Belfast has been costed at c£90 per sq ft, however, this lower level of specification was provided in order to keep rental levels at a low level.

Given the above, office development is currently not commercially viable. Agents and developers have stated that rental levels of £15 - £18 per sq ft would need to be achieved in order to make schemes viable.

Availability of Development Funding

The majority of respondents identified that one of the main market failure issues experienced within the property market is a lack of availability of development finance. Examples of stakeholder quotations are provided below.

> *"Lack of finance is the key issue at present" (Public Sector Body)*
>
> *"Access to finance for banks is very difficult. Banks may not consider commercial property prices to represent value for money" (Public Sector Body)*
>
> *"Given the current economic climate banks are not forthcoming with providing loans" (Invest NI Qualifying Business)*

The general perception of the majority of developers and agents is that whilst the banks may state that they are prepared to consider funding developments, in practice, this funding is unlikely to be forthcoming or highly conditional.

Lisney's **'Northern Ireland Commercial Property Report 2013'** also highlights access to finance as a major constraining factor:

> *"Due to a much publicised lack of bank finance the office owner occupier market has become effectively stagnant outside the distressed product stock…… It will take around 12-24 months to provide new stock. With limited development finance available it is unlikely that stock levels will improve in the near future despite planning permission for c.2m sq. ft. currently in existence. There are very few developers financially able to go on site speculatively."*

However more recently, Savills **'Northern Ireland Market Research (January 2014)'** noted that:

> *"the last 6 months have witnessed a greater appetite for financial institutions to lend into this sector."*

At our consultation meetings with the local banks, they all stated that they would be prepared to consider funding for the 'right scheme'. There were some differences to the lending criteria that would be applied, with general criteria as follows:

Table 5:2: Bank Lending Criteria

Bank Lending Criteria
• The proposed development would have to be located in an established/proven office location; • Speculative development would not be considered. A minimum of 50% of the building would need to be pre-let to strong covenants, with a number of the banks requiring 100% pre-let; • The majority of banks would require pre-let lease terms to be for a minimum of 10 years, but one bank stated that they would be prepared to consider a minimum of 5 years; • A number of the banks stated that they would require the development to 'stand on its own feet', whilst others stated that they would also take into account the borrowers other income sources that may contribute to the servicing of the loan; • Loan to cost at 50% - 70%; and • Interest margins at 3%-5% above LIBOR

Consultation with Invest NI and the SIB also identified that funding allocated to the Northern Ireland Executive by HM Treasury via Financial Transactions Capital[10] could potentially be made available to provide equity or loan funding to assist in office development projects.

Developer Financial Ability and Appetite for Risk

All the developers consulted were of the view that there is a shortage of supply of Grade A office accommodation. However, no developer stated that they would be prepared to commence an office development and were of the view that this will not happen unless there is

[10] Financial Transactions Capital is the term used by the UK Government of suppressing current expenditure to boost capital spend.

government intervention. Developers felt that the provision of gap funding, government underlying leases or rental guarantees would be suitable interventions.

Even if a scheme was commercially viable and bank funding was available a number of developers stated the following:

- Given the position of many of the developers in Northern Ireland with regard to existing borrowings, there are very few local developers with the level of equity required to commence a development; and
- The returns that developers with equity could receive from other investments/developments outside Northern Ireland may be more attractive or represent a lower level of risk.

Information Asymmetry

Consultation with Invest NI companies identified that one of the main market failure issues include a lack of information/advice with regards to what funding opportunities are available for companies.

Agents and developers stated that whilst they liaised with Invest NI and conducted property viewings with Invest NI qualifying businesses, they only had a limited information with regard to the nature and level of demand emanating from Invest NI qualifying businesses.

Feedback from lending institutions also indicated that they had little or no awareness of what Invest NI property support is available to assist property development.

Invest NI has indicated that a number of qualifying businesses seeking to develop their own premises lack the knowledge or skills to effectively and efficiently manage and deliver major capital build projects and there may be a need to support these clients.

Others Barriers to FDI / Indigenous Business Growth

According to two respondents from local councils, Invest NI restrictions on land use have prevented companies from moving onto various sites.

> *"Antrim Technology Park was established in early 80's and it has never fulfilled its potential as it is always below capacity. This is due to Invest NI restrictions on the land usage i.e. only firms within the technology field can utilise the site" (Local Council Representative)*

With regards the planning environment, local councils reported that restrictions on planning and planning process impacted FDI and indigenous business growth.

> *"There are too many restrictions on planning and the planning process. The whole process is so complicated. There is a need for a one stop shop - the whole process is overly governed". (Local Council Representative)*

Feedback from Invest NI qualifying businesses and local councils also highlighted that there are issues outside of the property market that are impacting business growth and as such the demand for property. These issues include:

- The global economic downturn;
- A more competitive corporation tax rate in the Republic of Ireland (ROI);
- That the ROI has addressed their skills gap more effectively to meet FDI demands, this is evidenced by the fact that Google and Facebook have set up offices in Dublin; and

- NI is too public sector driven and lacks an entrepreneurial culture.

5.5 Experience of Invest NI Property Interventions

The most common Invest NI property intervention used by consultees who have availed of support and those who considered Invest NI support but chose not to avail, was the provision of serviced sites. The majority of respondents reported that the rationale for seeking support was to re-locate and build/move into new premises due to the expansion/growth of their existing business.

Those Invest NI qualifying businesses that ultimately chose not to take up Invest NI support stated that was primarily due to the economic downturn and financial issues. Other reasons included: longer than expected timescales to purchase and develop a site and development costs of a site exceeding the final market value of the property. Table 5.3 summarises stakeholder feedback on the relevance of existing Invest NI interventions going forward.

Table 5:3: Relevance of Existing Invest NI Property Interventions

Intervention	Commentary
Purchase, holding and sale of serviced sites	This has been an effective intervention and whilst there is limited demand for additional sites at present, it remains a useful offering in isolated cases, such as Omagh / Tyrone where there is a shortage of serviced sites and in an area where one developer holds all the sites available and effectively controls the price in that area.
Rental Property Solutions	Given the limited demand and the very prescriptive demands of individual industries and companies, speculative building of factories is no longer relevant. However, Invest NI has recognised this issue and this intervention has not been pursued in recent years.
Property Assistance (PA) scheme	There has been limited uptake of this support, potentially due to a lack of business confidence. This intervention requires the client company to manage the development process, however, consultation with Invest NI would suggest that qualifying businesses generally do not have the required knowledge of the property sector and construction processes.
Property sales and marketing advice	The property and sales advice was considered to remain a relevant offering and helped addressed issues of imperfect information. However a number of commercial agents suggested that database of properties available needed to be updated more often.
Invest NI contribution to the planning system	Invest NI's contribution to planning policy was considered important and remains relevant going forward. Consultation with Planning Service suggests that there is a significant level of interaction between Invest NI and Planning Service. Planning Service is in the process replacing the current Planning Policy Statements with a Single Strategic Planning Policy, Invest NI will be a key consultee in this process. The current Invest NI intervention on influencing planning policy is working effectively.

Source: Stakeholder Consultations

The table above demonstrates that the provision of serviced sites, property advice and contributing to the planning system remain relevant going forward. However, Rental Property Solutions (factories) is no longer relevant and whilst the need to improve access to finance is evident, the Property Assistant Scheme may need to be revised in light of the lack of property and construction knowledge and experience among Invest NI qualifying businesses.

6 KEY FINDINGS & POLICY IMPLICATIONS

The following section summarises key findings from the desktop and primary research and highlights the associated policy implications.

6.1 Local Property Market Characteristics

6.1.1 Industrial Space

In relation to the supply of industrial lands and property market, our key findings are as follows:

- Invest NI holds c745 acres of serviced sites across Northern Ireland, with significant levels of supply available in Craigavon, Derry and Newtownabbey Council areas;
- In addition to the Invest NI holding, there is c3.2m sq ft of industrial property available in Northern Ireland. This stock is largely located outside Belfast; and
- Many of the regions industrial units are older stock in excess of 20,000 sq ft and are located within older industrial estates or former large industrial complexes that have been sub-divided to provide a range of industrial/warehouse accommodation.

In terms of demand:

- Demand from industrial occupiers is generally limited and ad hoc in nature. Demand is highest in relation to units of less than 10,000 sq ft, however, there appears to be a number of queries for units in excess of 50,000 sq ft. That said, Invest NI has indicated that they are not aware of any ‘live’ requirements for units of this size;
- Overall, occupier demand is expected to increase as the NI economy improves, but this is not expected to result in significant rental or capital value increases;
- There has been no speculative development of new industrial/warehouse units over the past number of years due to very low rentals and capital values; and
- On the whole, the supply of Invest NI serviced sites appears to be adequate. However, it is also acknowledged that localised ‘hot spots’ of unmet demand may require public sector intervention in the future.

6.1.2 Office Space

Our research highlights the following in relation to the current supply of office space:

- The office market in Northern Ireland is dominated by Belfast. There is c.1.1 million sq ft of office space currently available across Northern Ireland of which c900,000 sq ft is located in Belfast. Of the total supply, c320,000 sq ft is classified as Grade A office space, c250,000 sq ft of which is located in Belfast City Centre; and
- 21% of this Grade A space is contained within units that are smaller than 10,000 sq ft. A further 36% is contained within units sized between 10-20,000 sq ft. There are only three office buildings across Northern Ireland that could offer space exceeding 20,000 sq ft.

In terms of demand:

- Office take-up in Belfast has averaged c320,000 sq ft per annum over the past 3 years, which is broadly in line with historic take up levels. Of this total, the take up of Grade A space has averaged c225,000 sq ft per annum;

- Commercial agents anticipate office space demand at c1.1m sq ft, spread over the next 3 years. Invest NI enquiries suggest a similar volume of office space requirements but estimate FDI demand at 822,700 sq ft (677,900 of which is focused on Belfast);
- Based on Invest NI job data, we estimate that FDI has utilised 143,000 sq ft of office space per annum over the last 3 years. In the years 2011/12 and 2012/13 this included 5 FDI projects requiring office accommodation of 20,000+ sq ft, equating to a total of c133,000 sq ft; and
- The Invest NI 2014/15 forecast for FDI (office based) jobs is the highest it has been in 4 years and is significantly higher than that profiled for the years 2011/2012 and 2012/2013, which suggests that demand for FDI office space will also be higher.
- Planning permission has been granted c1.0m. sq ft of office space in Belfast City Centre and Titanic Quarter, with current planning applications totalling c500,000 sq ft. In addition, planning permission has been granted for c600,000 sq ft of financial services/research and development space at Titanic Quarter. Only c20,000 sq ft of new build office accommodation will be completed in 2014. At present, there is only one new office building of c68,000 sq ft under construction.
- There is potential for c473,000 sq ft of office space within Belfast City Centre to be vacated by government occupiers over the next 6 years. This may provide opportunities for refurbishment/upgrade of buildings which may result in an increase in the supply of Grade A office space in Belfast City Centre. However, the majority of space would not be available for refurbishment until 2018/19.

In terms of market rents/capital values:

- Rents for Grade A offices in Belfast are currently £13.50-£14.00 per sq ft. At this level rents are c25 - 50% lower than comparable regional cities in Great Britain and 50% lower than Dublin;
- Office investment capitalisation yields in Belfast are higher than comparable cities in GB and Dublin, with the result that office capital values are 33%-66% lower; and
- These lower rent and capital values have impacted on the quality of specification of office accommodation and commercial viability of office development in Belfast and Northern Ireland as a whole – refer to Section 6.2.1 below.

6.2 Market Failure & Barriers to Growth

Our research indicates that private developers are currently not prepared to commence new industrial or office development in Northern Ireland and that there is market failure within these market sectors. Our research would indicate that there are four main reasons for this market failure, namely:

6.2.1 Commercial Viability

Low rents and high capitalisation yields in the industrial and office markets compromise the viability of projects and discourage investment. We have conducted a development appraisal to illustrate this point. Full details of the development appraisal are contained in Appendix 1 (along with sensitivity analyses). The appraisal reflects the following:

The development for a 60,000 sq ft gross Grade A office building;

- 15% return on development costs (typical developer return expectations);

- 100% pre-let with a strong covenant and lease of 15 years;
- Yield of 7.0%; and
- Construction cost is estimated to be £120 per sq ft to achieve reasonable Grade A standard building.

The results of this appraisal indicate that:

- On the assumption of a construction cost of £120 per sq ft and yield of 7.0%, a rental of c£15.75 per sq ft would be required to achieve a profit of c15% on costs (profit of c£1.35m); and
- Given the above assumptions, current prime rents of £14.00 per sq ft are c11% below that required to provide a commercially viable scheme.

The table below illustrates the change in development profit assuming that construction costs are fixed at £120 psf.

Table 6:1: Results of Indicative Development Appraisal - 60,000 sq ft (Gross) Grade A office building

Rent per sq ft	Net Initial Yield				
	7.00%	7.50%	8.00%	8.50%	9.00%
£12.00	-£1,007k	-£1,550k	-£2,024k	-£2,442K	-£281k
£13.00	-£379k	-£966k	-£1,480k	-£1,933k	-£2,335k
£14.00	£250k	-£383k	-£936	-£1,424k	-£1,857k
£15.00	£879k	£201k	-£392	-£914k	-£1,379k
£16.00	£1,507k	£784k	£152k	-£405k	-£900k
£17.00	£2,136k	£1,368k	£696k	£104k	-£422k
£18.00	£2,765k	£1,951k	£1,240k	£613k	£56k

6.2.2 Availability of Development Finance

- Banks continue to be under pressure to strengthen their balance sheets, which places constraints on their capacity to lend to business in general and the property sector in particular; and
- Consultation with the banks indicates that they would be willing to consider providing development finance for the 'right', commercially viable scheme.

6.2.3 Developer Financial Ability and Appetite for Risk

- Given the position of many of the developers in Northern Ireland with regard to existing borrowings, there are very few local developers with the level of equity required to commence a development; and
- Developers with equity could potentially achieve a higher level of return or lower level of risk from other investments/developments outside Northern Ireland.

6.2.4 Information Asymmetry

Our consultation process identified that:

- Invest NI qualifying businesses identified a lack of information/advice with regards to what funding opportunities are available for companies;
- Agents and developers stated that they only had limited information with regard to the nature and level of demand emanating from Invest NI qualifying businesses;
- Feedback from lending institutions indicated that they had little or no awareness of what Invest NI property support is available; and
- Invest NI has indicated that a number of qualifying businesses seeking to develop their own premises lack the knowledge or skills to effectively and efficiently manage and deliver major capital build projects.

6.3 Policy Implications

Industrial Property

Although demand for industrial property is generally limited and ad hoc in nature, stakeholder feedback identifies that a number of Invest NI's interventions remain relevant going forward, namely:

- The provision of serviced sites;
- Property advice; and
- Invest NI's contribution to the planning system.

However, given limited demand and the very prescriptive demands of individual industries and companies, speculative building of factories is no longer relevant.

In addition, stakeholder feedback also highlights that when companies have a requirement for industrial property that often find it difficult to access information/advice in relation to funding and/or progressing development projects. Consequently, further consideration should be given to improving client access to this type of information/advice.

Office Space

Based on the demand and supply figures profiled, it is evident that current supply of Grade A accommodation Belfast City Centre is extremely limited. This is particularly pronounced in relation to buildings capable of accommodating a requirement in excess of 20,000 sq ft.

The increase in supply provided by Belfast Harbour Commissioners development will contribute positively to Belfast's Grade A offering, however, it will make only a modest contribution to the City's overall capacity, and although there is potential for c473,000 sq ft of office space within Belfast City Centre to be vacated by government occupiers over the next 6 years, the majority of space would not be available until towards the end of this period.

Stakeholder feedback has also confirmed that low rents and high capitalisation yields experienced in the office market compromise the viability of projects and that the conditions associated with bank lending means that there are very few local developers with the level of equity required to commence a development. Consequently, there is limited potential for any significant development to occur in the next 1-5 years.

The limited construction of new build Grade A supply and the current lack of development viability means that Belfast (and Northern Ireland generally) is only able to offer FDI's a very limited supply of new build accommodation on a speculative basis.

Given the above, there is a clear rationale for the consideration of public sector intervention that aims to address the current shortage of Grade A office space in Belfast City Centre by reducing the financial risks associated with the development of this type of property. This would help to create a benchmark for rents and specification and provide market evidence to demonstrate commercial viability. This is important as developers and the banks' valuers will assess the market evidence in preparing their development feasibilities.

However, given that an improving economy and the release of Government occupied buildings may help alleviate the market failures that are currently at play, the implementation of any future intervention should aim to be short-term in nature, focused solely on addressing the current lack of supply of Grade A office space and the associated issues of development viability and risk. The intervention should look to provide market evidence of commercial viability, which will help restore confidence in the office and 'kick start' private development.

7 BENCHMARKING

7.1 Introduction

The following section provides summary details of our assessment of property interventions undertaken by economic development organisations in other parts of the United Kingdom and Ireland. Our approach involved two key components, namely:

- Comparative analysis of public sector property assistance by jurisdiction; and
- Case Studies to highlight examples of interventions undertaken.

Appendix 2 provides full details of our comparative analysis. Five cases studies are detailed below.

7.2 Comparative Analysis Findings

There is a high degree of consistency in terms of the property advice/assistance provided by economic development organisations in each jurisdiction.

Each development agency/Government body has a clear focus on providing property information to businesses within its jurisdiction. All regional development agencies undertake a degree of targeted support of an enhanced product range[11] for those clients which are considered to have the most significant impact for the economy. The enhanced product range includes client executive led services such, property advice, lease agreements and grants. In addition, there is evidence that each of the bodies also provides direct financial assistance to developers to address constraints: including site assembly, grants/loans, subletting and lease guarantees. All of which lessen the risk exposure of the developer.

Although we have not been able to confirm the degree of take up of various financial instruments (such as guarantees and equity support) within the Republic of Ireland, it is noted that Scottish Enterprise more frequently uses equity support than is the case in Wales, which continues to rely heavily on direct grants to small scale developers.

7.3 Case Studies

We have profiled six case studies of property interventions used in Scotland, Wales and Ireland to profile examples of good practice in relation to use of speculative build, acquisition, development funding and lease guarantees/subletting. Each case study detail:

- The nature of the development;
- The nature and scale of public sector assistance provided;
- The rationale for Government intervention; and
- Relevance to issues identified in the NI property market.

[11] In the case of Scottish Enterprise/Scottish Development International, an intervention framework is offered to all companies regardless of size. Company need and potential impact are assessed at an induction stage and subsequent degree of support is tailored to this assessment.

Case Study 1 : 110 Queen Street, Glasgow	
Nature/status of the development	The project aims to regenerate by June 2015 110 Queen Street a former bank in Glasgow for speculative Grade A office accommodation. The development aims to create 143,000 sq ft of Grade A offices and 20,000 sq ft of retail space, supporting more than 30 jobs and apprenticeships in the construction sector. The intervention is aimed at FDI and the needs of indigenous SMEs.
Public Sector Assistance Provided	The site at Queen Street is being developed with a £50 million funding package and includes a £9.6 million loan from the Scottish Partnership for Regeneration in Urban Centres (SPRUCE) Fund and a private sector contribution of £40m from BAM Construction. Spruce is an EU Jessica[12] funded initiative which provides direct grants for joint ventures and has the potential to offer lease guarantees to targeted companies.
Rationale for Government Intervention	Funding Gap and addressing the coordination failure: SPRUCE plays a valuable role in supporting high quality developments in the currently constrained funding market, particularly where projects demonstrate sustainability credentials and are contributing to economic growth and jobs creation.
Relevance to NI	This example identifies the potential to utilise EU funding, as part of a cocktail of private and public funding, to address funding gaps within the office property market.

Case Study 2: Callaghan Square, Cardiff	
Nature/status of the development	The Welsh Government, in conjunction with a private sector developer is aiming to develop by October 2014, 100,000 square feet of new Grade A office space. The project has been developed to address a perceived lack of such accommodation within the city, specifically aimed at the foreign direct investment market. A significant amount of the office stock will likely be pre-let, which will mitigate some of the risk for the venture. The Government will then have a reliable income stream from tenants and will be able to sell the building at a later date to get a return on its investment.
Public Sector Assistance Provided	The Government bought this prime site from a developer for £7.2m and has procured a developer to deliver the project (at no contribution). Thereafter, the site project will continue to be run by the Government

[12] JESSICA - Joint European Support for Sustainable Investment in City Areas, is an initiative of the European Commission developed in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). It supports sustainable urban development and regeneration through financial engineering mechanisms. Funding can be invested in public-private partnerships or other projects included in an integrated plan for sustainable urban development. These investments can take the form of equity, loans and/or guarantees.

Case Study 2: Callaghan Square, Cardiff	
	until such time that it can sell onto the private sector. There is little interest from private sector developers for such speculative build in Cardiff.
Rationale for Government Intervention	The Government has sought to address the following two market failure: Demonstration effect: Both to the development market and also to foreign direct investors, related to the potential of Cardiff as an emerging area for inward investment. Cardiff comes 27th (23 behind Belfast at number 4) in terms of FDI performers in the UK with 9 projects per annum, 799 jobs created and an average of 57 jobs per intervention[13].
Relevance to NI	This initiative aims to address a shortage of speculative Grade A office space that can be offered to FDI. This method of intervention (i.e. ownership/operation by Government) provides the public sector organisation with control over the use and future sale of the building, albeit at a cost of incurring all relevant capital and operating expenditure.

Case Study 3 : No.1 Capital Quarter, Cardiff	
Nature/status of the development	The Welsh Government entered into a forward purchase agreement in June 2013, with local property development company JR Smart, to acquire an 80,000 sq ft speculative Grade A office project at No.1 Capital Quarter, Cardiff
Public Sector Assistance Provided	The Welsh Government agreed to purchase the building upon completion for c£15m. The acquisition enabled the building to be completed and ready for occupation by March 2014. The agreement also requires JR Smart to commence the construction of an additional 75,000 sq ft Grade A office scheme at Capital Quarter immediately on finishing the current project, with the funding provided by the sales proceeds of No.1 Capital Quarter.
Rationale for Government Intervention	The Welsh Government entered into the forward purchase agreement as one of the issues facing Cardiff is a lack of Grade A top quality new office stock which is needed to attract financial and professional services inward investment, as well as meeting demand from indigenous businesses looking to expand. The supply of completed new office stock is expected to boost the marketing of the Welsh Government's Enterprise Zone, as potential tenants can now see offices 'on the ground'.

[13] Rebuilding Momentum: Economic Development Strategy for Cardiff City Council (2012)

Case Study 3 : No.1 Capital Quarter, Cardiff	
Relevance to NI	This intervention aims to address a shortage of Grade A office space that can be offered to FDI. This method of intervention (i.e. ownership/operation by Government) provides the public sector organisation with control over the use and future sale of the building, albeit at a cost of incurring all relevant capital and operating expenditure.

Case Study 4: Thornton Industrial Estate, Milford Haven	
Nature/status of the development	This is a speculative build led by a local developer (Austwel Holdings) to build approximately 30,000 sq ft of new workshop and office space of approximately at the Thornton Industrial Estate in Milford Haven. The total construction costs are estimated at £1m and is aimed for completion in 2014. The building marks the first move by this established company into speculative development for the regional office market in Pembrokeshire.
Public Sector Assistance Provided	The development has been supported to the sum of £383,151 of assistance under the South West Wales Property Development Fund. The fund aims to bridge the gap in funding for office and industrial developments across the region. This particular site forms part of the Haven Waterway Enterprise Zone. Consequently, staff from the Enterprise Zone will signpost opportunities for inward investment/company growth and also provide additional funding for specialist fit by perspective clients.
Rationale for Government Intervention	Coordination failure and funding gap. The Welsh Government is seeking to address a constraint in the supply of office accommodation in a specified regional market, through financial assistance to speculative builds within a targeted zone.
Relevance to NI	This initiative aims to addresses a funding gap within the office and industrial property markets, an issue that applies to both sectors with the NI property market. In this example, the developer bears the majority of the cost associated with the development, whilst the economic development agency seeks to utilise the building to meet the needs of FDI/indigenous company growth.

Case Study 5: Grand Canal Square, Dublin	
Nature/status of the development	The IDA in conjunction with NAMA bought and renovated 120,000 sq ft of office in Grand Canal Square in Dublin. The site had been on NAMA's bad debt property book and was renovated in 2013 by IDA in order to attract a single user potential inward investor.

Case Study 5: Grand Canal Square, Dublin	
Public Sector Assistance Provided	IDA led on the development and subsequent promotion of the site and was responsible for securing Facebook as a sole tenant. The property was developed so as to meet the particular requirements of Facebook. In addition, IDA continues to hold the lease agreement with Facebook.
Rationale for Government Intervention	The rationale for Government intervention was one of coordination: speed of delivery and site assembly (i.e. the ability to choose an appropriate city centre location) were fundamental to retaining Facebook in Dublin.
Relevance to NI	This initiative highlights the potential for refurbishment options to offer a relatively fast approach to meeting the office needs of FDI. The option to own/lease the building provides the public sector organisation with control over the future use of the building.

Case Study 6: Number 1 Albert Quay, Cork	
Nature/status of the development	The project aims to deliver a 200,000 sq ft high technology riverside building on Albert Quay in Cork. Once complete in late 2015 Number 1 Albert Quay will have the capacity for 2,000 workers.
Public Sector Assistance Provided	The development costs €50million and is being funded by two private sector partners, BAM Contractors and John Clery Developments. The public sector involvement is focused on channelling foreign direct investment into the park and providing fit out grants and also lease guarantees to these emerging companies. The lease guarantees are offered to the developer to encourage flexibility in the uptake of space.
Rationale for Government Intervention	Cork is classified as a gateway under the Irish Spatial Strategy and is one of three cities (two others being Dublin and Galway) which have received over 80% of FDI into the Republic of Ireland. Private sector developers are aware of the fast growing needs of FDI in the Republic of Ireland and are content to invest in such speculative developments. However, public sector support is now focused on lease guarantees in order that FDI companies can move into a space and not be obliged to pay full market rental or tied into an extended rental period.
Relevance to NI	In this example, the initial capital development of office accommodation is being wholly funded by the private sector. The public sectors role relates to marketing and promotion of the building to FDI, providing lease guarantees and assisting with the costs of office fit-out. Unlike Cork, our research suggests that there is little appetite within Northern Ireland's private sector to carry out self-funded speculative office development.

The above case studies illustrate a small number of examples of interventions used in other jurisdiction to address market failure issues within the local property markets. Interventions involving a high degree of capital and/or on-going revenue cost on the part of the public sector are utilised in environments where one of more of the following situations/requirements tend to apply:

- An absence of private sector appetite in speculative developments;
- The need for a speedy response to identified investor needs; and
- The need for control of building use to meet economic development objectives.

8 ASSESSMENT OF FUTURE INTERVENTIONS

8.1 Introduction

Our key findings in Section 6 concluded that there is evidence of market failure in the provision of new industrial and office buildings in Northern Ireland. Within both sectors this has led to an undersupply of accommodation of a size and quality/specification that is likely to be required by major corporate and FDI occupiers.

This market failure has an adverse impact on Northern Ireland's ability to accommodate the expansion of existing companies and to attract major FDI companies.

Our Key Findings highlight that there are four main reasons for this market failure:

- Commercial viability of industrial and office development;
- Availability of development finance;
- Developer financial capability/appetite for risk;
- Information asymmetry

The following section identifies/assesses interventions addressing:

- The financial risk and viability of industrial and Grade A office development; and
- The identified issues relating to asymmetric information.

In considering a range of prospective interventions, we have been particularly mindful that the undersupply of industrial and Grade A accommodation is most acute for buildings of a size and quality/specification that is likely to be required by major corporate/FDI occupiers. Consequently, our analysis of potential interventions is focused on those that should be implementable within a relatively short timeframe, allowing for Invest NI to respond quickly to the market failures currently impacting on these property sectors. In the medium/long term, an improving economy and the future release of Government occupied buildings may help alleviate the market failures that are currently at play within the Grade A office sector.

Also, whilst neighbouring jurisdictions utilise other policy instruments and funding to address market failures within their property markets (e.g. Enterprise Zones, Accelerated Development Zones, Tax Increment Financing, the use of EU (JESSICA) funding), our focus on short/medium term interventions means that the relevance and application of these strategic (and longer term) approaches have not been assessed within this report.

Whilst we have carried out our assessment of the pros and cons of each potential intervention, we are also aware that Invest NI will have to consider the introduction of any intervention within the requirements of current public sector capital and revenue budgetary constraints.

8.2 Interventions Addressing Risk and Viability Issues in the Property Market

Based on our desk research and consultations we feel that there are a range of potential interventions that should be considered in order to overcome the market failures identified in relation to industrial and 'Grade A' office space. These are summarised below:

- Invest NI speculatively build an industrial or an office building

- Invest NI acquires a new office buildings;
- Invest NI provides development funding;
- Provision of a capital grant to developers;
- Provision of mezzanine finance to developers;
- Invest NI take an equity stake in the development;
- Invest NI take an underlying lease and sublet the accommodation; and
- Invest NI act as lease guarantor for Invest NI qualifying businesses.

In the sections below, we set out the basis of each potential intervention and the positives and negatives/risks associated with each intervention in dealing with the identified causes of the market failure.

8.2.1 Invest NI Speculatively Develops an Industrial/Office Building

Under this intervention Invest NI would develop an existing government owned site/building or acquire a suitable site and develop an office building on a speculative basis. They would then seek to let the space to Invest NI qualifying businesses and other occupiers. Once let the building could be sold as an investment asset. This would be similar to the project outlined in Section 7.3 Case Study – Callaghan Square, Cardiff.

Positives

- Invest NI would have control of the design and specification of the accommodation, which could therefore be tailored to suit known indigenous and FDI client requirements;
- Invest NI would have good knowledge of potential indigenous business and FDI requirements and be in a position to 'steer' these qualifying businesses towards the building. This would overcome information asymmetry and may enable pre-lets to be put in place prior to or during construction;
- Invest NI would have the ability to control lettings to financially strong tenants on rents and lease terms which ensure that the development is economically viable;
- This intervention would get over the market failure issues of development funding and developer appetite;
- The lettings at a suitable level would provide a benchmark on market rents and specification which may help to 'kick start' the market and improve the financial viability for private developments; and
- The fully let building could be sold as an investment asset to enable the recovery of construction/ development costs or a potential development profit.

Negatives

- The development would require a large capital sum. For example, the development of a 60,000 sq ft office building would require a capital sum in the region of £8 -£10m;
- A suitable site would have to be identified and acquired and a suitable planning permission may have to be sought;
- The development would be subject to a public procurement process and Green Book economic appraisal. Occupiers may have concerns over the ability of this process to deliver a suitable building of the required specification within the required timescales. These concerns may impact on the ability to achieve pre-lets;

- Invest NI would take on the development risk, letting risk and void costs until the building was completed and occupied;
- Invest NI would take on the sale risk. There is recent evidence of office investment sales, however, industrial sales are pre-dominantly to owner occupiers rather than investors; and
- Invest NI previously speculatively developed industrial buildings for rental, however, no longer the do so as the supply of properties available under the current Rental Property intervention is deemed to be adequate.

8.2.2 Invest NI agree to Forward Purchase a New Industrial or Office Building

Under this intervention Invest NI would enter into an agreement whereby a developer would develop a new industrial or office building and Invest NI purchase the building upon completion. Invest NI would then seek to let the space to Invest NI qualifying businesses and other occupiers. Once let the building could be sold as an investment asset. This would be similar to the project outlined in Section 7.3 Case Study – No.1 Capital Quarter, Cardiff.

Positives

- Invest NI would have control over the design and specification of the accommodation, which could therefore be tailored to suit known indigenous and FDI client requirements;
- The developer would provide a suitable site with planning permission and would take on the development risk during the construction period;
- Invest NI would have good knowledge of potential indigenous business and FDI requirements and be in a position to 'steer' these clients towards the building. This would overcome information asymmetry and may enable pre-lets to be put in place prior to or during construction;
- Invest NI would have the ability to control lettings to financially strong tenants on rents and lease terms which ensure that the development is economically viable from a Green Book perspective;
- The developer may still need to seek development funding, however, this may easier to achieve with a forward purchase agreement in place. This would get over the market failure issues of development funding and developer appetite;
- Lettings at a suitable level would provide a benchmark on market rents and specification which may help to 'kick start' the market and improve the financial viability for private developments; and
- The fully let building could be sold as an investment asset with the potential to recover the purchase cost or make an investment profit.

Negatives

- The development would require a large capital sum. For example, the purchase of a 60,000 sq ft office building would require a capital sum in the region of £8 -£10m;
- The development would be subject to a public procurement process and Green Book Economic Appraisal. Occupiers may have concerns over the ability of this process to deliver a suitable building of the required specification within the required timescales. These concerns may impact on the ability to achieve pre-lets;
- Invest NI would take on the development risk, letting risk and void costs until the building was completed and occupied;

- Invest NI would take on the sale risk. There is recent evidence of office investment sales, however, industrial sales are pre-dominantly to owner occupiers rather than investors; and
- There would be public relations risk if the building did not let or sell.

8.2.3 Invest NI provide Development Funding

Under this intervention Invest NI would provide development funding to a developer to provide a suitable industrial or office building.

Our consultations with SIB indicate that the Financial Transactions Capital could potentially provide a source of funding for such a development.

Positives

- This would overcome the issue of the availability of development funding, and Invest NI may be able to offer the developer a loan at a lower rate of interest and a higher loan to cost than available from a bank ;
- Invest NI may get repaid the loan and interest in full and therefore the intervention will be at nil cost to Invest NI
- As a condition of the loan, Invest NI may be able to have a degree of control over the design and specification of the accommodation, which could therefore be tailored to suit known indigenous and FDI client requirements;
- The developer would have to provide a suitable site with planning permission and would take on the development risk;
- Invest NI would have good knowledge of potential client requirements and would be in a position to 'steer' these clients towards the building. This would overcome information asymmetry and may enable pre-lets to be put in place during construction; and
- As a condition of the loan, Invest NI may be able to approve lettings to ensure that lettings are made at a suitable rental level that would provide a benchmark on market rents that may help to 'kick start' the market and improve the financial viability for private developments.
- There may be potential for funding to be provided through the Financial Transactions Capital monies made available to the NI Executive.

Negatives

- Invest NI would need to provide a sizeable loan e.g. funding of c£4m - £6.75m would be required on a 60,000 sq ft gross office building;
- There is risk of borrower default, although it is assumed that Invest NI would have the benefit of a first charge over the property and step in rights during the construction phase;
- Invest NI would be taking on an element of the development/investment risk that the building would not sell at a level to enable the loan to be repaid in full; and
- Whilst this funding would slightly improve the financial viability of the development and reduce the level of developer equity required, the developer is only likely to seek funding if the development is commercially viable.

8.2.4 Provide a capital grant

Under this intervention Invest NI would make a capital grant to make up the difference between estimated market value of the completed development and eligible development costs. This gap funding would be similar to the development interventions provided under the Scottish Property Support Scheme, the Welsh Property Development Scheme and the PDA scheme previously operated by IDB.

It is also similar to the project outlined in Section 7.3 Case Study – Thornton Industrial Estate, Milford Haven.

Eligible costs under these schemes include:

- Land, the lower of actual land purchase price or open market value;
- Site preparation;
- The costs of providing services, utilities and infrastructure;
- Construction costs;
- Professional fees associated with the project;
- Finance charges; and
- Developers' profit.

Positives

- The gap funding will provide a suitable development profit and mean that the development is commercially viable from the developer's perspective and mitigate the development risk;
- As a condition of the gap funding, Invest NI could have a degree of control over the design/specification and require that a proportion of accommodation space is reserved for letting to Invest NI clients; and
- Gap funding would also be suited to schemes were the property is being developed for an owner occupier, for example, the development of an industrial unit.

Negatives

- Invest NI may not have an opportunity to obtain any repayment of the capital payment, although overage provisions could be included, should the building sell for in excess of the estimated value; and
- There may still be a requirement to raise development funding from a bank, which may not be possible as the development will not be commercially viable without the gap funding. It may therefore require the developer to provide the remainder of the development funding from their own equity.

8.2.5 Provision of mezzanine finance

Under this intervention, Invest NI would provide a loan to the developer to be used as part of the developer's equity. A loan of c£1.0m -£2.25m would be required to provide equity for a 60,000 sq ft office building. The developer would still require a development loan from a bank. This would be similar to the project outlined in Section 7.3 Case Study – Queen St, Glasgow.

Positives

- This will reduce the amount of the developer's own equity that they will have to raise to commence the development, which would mitigate some of the developer risk; and
- The mezzanine loan would be repaid by the developer if the scheme is successful.
- There may be potential for funding to be provided through the Financial Transactions Capital monies made available to the NI Executive.

Negatives

- Depending on the current borrowing arrangements on the site, it may not be possible to have the mezzanine loan secured on the property;
- The developer may still need to seek bank development funding. Some banks would not be willing to have mezzanine finance in place due to security issues;
- The development would still need to be commercially viable, but the provision of mezzanine finance does not improve the commercial viability; and
- Invest NI may have less ability to control the specification and letting of the space.

8.2.6 Take an equity stake

Under this intervention, Invest NI would become a joint venture partner with the developer and provide part of the equity required for the development.

Positives

- Reduces equity requirement/risk to the developer which may encourage them to undertake the development
- Invest NI would have a degree of control over the design and specification of the accommodation, which could therefore be tailored to suit known indigenous and FDI client requirements
- Invest NI would have some control on the supply and letting of the accommodation to meet Invest NI client requirements; and
- The fully let building could be sold as an investment with the potential to recover the equity investment and share in any development profit.

Negatives

- The development would still need to be commercially viable;
- Some developers may not be willing to enter into a joint venture arrangement with a public sector body as they may see the structure as being too restrictive;
- Structure of JV to be agreed, more complex and needs on-going management; and
- Invest NI would take on a share of the development risk, letting risk, voids costs and the sale risk.

8.2.7 Take an underlying lease and sublet the accommodation

Under this intervention, Invest NI would agree to lease at least 50% of the entire building for a long lease term of (say 15 years with no breaks) and then seek to sub-let the accommodation to Invest NI qualifying businesses.

Positives

- The Invest NI rent could be agreed at a level that makes the development commercially viable. This would provide a benchmark on market rents and specification which may help to improve financial viability for private development;
- If the all the Invest NI accommodation is fully sub-let at the same rent agreed by Invest NI, the rent cost to Invest NI may be nil. Invest NI could potentially sub-let the accommodation at a higher rent to make a profit;
- Invest NI could have a degree of control over the design and specification of the accommodation, which could therefore be tailored to suit known indigenous and FDI client requirements
- Invest NI would be aware of their qualifying businesses' requirements and would have control on the supply and letting of the accommodation to meet Invest NI client requirements;
- A pre-let of at least 50% of the building would provide banks with comfort on the rental levels, covenant strength and lease length which will help in securing bank funding;
- A pre-let would provide comfort to developers on rental cashflow and sale value of completed asset, which reduces development risk;
- A pre-let to a government covenant on a long term lease would provide potential investor purchasers of the completed development with long term secure rental income, which will make the building more marketable and increase its capital value. With the building 100% pre-let to a government covenant, there is the potential that an investor may enter into a forward funding or forward purchase of the development. This would further lessen development risk and improve the chances of securing bank funding; and
- Given that it would be the government covenant on a long lease that would be creating the greater value of the investment, Invest NI could seek to include overage provisions whereby they would be paid a share of profits if the sale price is above an agreed level.

Negatives

- Invest NI would be taking on the letting risk and void costs if the space remains vacant. The sub-tenant may only agree rent at a lower level and shorter lease term; and
- In order to make the development commercially viable, it would require Invest NI to enter into a lease term of at least 15 years, therefore it would be a long term commitment. Invest NI would have to have suitable property management processes in place to ensure that sub-tenants' rent and service charge were collected and that key dates/notice periods were adhered to.
- Rents agreed by Invest NI would need to be at a level that made the project commercially viable. It is estimated that these would need to be in excess of £15 per sq ft. Market rents are currently around £13.50- £14.00 per sq ft. An LPS assessment of Value for Money (VfM) would be required in respect of the rents agreed, which may be difficult if the letting established an increased level of market rent. Therefore, this VfM assessment may need

to be considered on the basis of the broader economic development case, rather than the narrower basis of market rental levels.

8.2.8 Invest NI acts as lease guarantor

Under this intervention Invest NI would act as guarantor on the lease taken by an Invest NI qualifying business. The qualifying business would enter into a long lease that may include options to break every 5 years. In the event that the qualifying business defaults on the lease or exercises their option to break, Invest NI would step in to take on the lease obligations. Invest NI would then seek to sub-let the accommodation.

This would be similar to the project outlined in Section 7.3 Case Study – Number 1 Albert Quay, Cork.

Positives

- A cost to Invest NI only arises in the event that the tenant defaults or vacates the property. If the guarantor provisions are invoked, Invest NI could sub-let the accommodation at the same rent agreed by Invest NI, so that the net cost to Invest NI may be nil;
- Invest NI could work in conjunction with the qualifying business in order to have a say in the design and specification of the accommodation, which could therefore be tailored to suit known indigenous and FDI client requirements;
- Invest NI would be aware of their qualifying businesses' requirements and would also have control on the supply and letting of the accommodation to meet Invest NI client requirements;
- A guarantee would provide banks with comfort on the rental cashflow, covenant strength and lease length which will help in securing bank funding;
- A guarantee would provide comfort to developers on rental cashflow and sale value of completed asset, which reduces development risk;
- A guarantee from a government tenant on a long term lease would provide potential investor purchasers with long term secure rental income, which will make the building more marketable and increase its capital value. With the building pre-let with a government guarantee on the lease, there is the potential that an investor may enter into a forward funding or forward purchase of the development. This would further lessen development risk and improve the chances of securing bank funding; and
- Given that it would be the government covenant on a long lease that would be creating the greater value of the investment, Invest NI could include overage provisions whereby they would be paid a share of profits if the sale price is above an agreed level.

Negatives

- Invest NI takes on the sub-letting risk and costs if the space remains vacant or if the sub-tenant only agrees to pay a lower rent; and
- In order to maximise capital value of it would require Invest NI to provide a long term guarantee of c15 years, therefore it would be a long term commitment.

8.3 Conclusions and Recommendations on Potential Property Development Interventions

In considering the effectiveness of each of the above potential interventions we have taken into consideration:

- The extent to which they assist in alleviating the four main reasons market failure;
- The degree of control that Invest NI will have over the accommodation to ensure that their indigenous and FDI client requirements are met;
- The affordability of the intervention; and
- Key risks associated with implementation.

Whilst the speculative development or forward purchase of an industrial or office building would overcome the issues of commercial viability, development funding and developer risk appetite, it does involve government providing a sizeable capital sum and Invest NI taking on the development/letting risk and potential void costs. However, if the building was substantially/fully let, it would provide an investment asset that could be sold to recover the capital outlay. However, the value of the investment asset will depend on the rents, lease lengths and covenant strength of the tenants. These interventions would enable Invest NI to have a strong level of control on the specification and supply of accommodation to be made available to qualifying businesses.

The provision of development funding would overcome the funding issue. Funding would have to be commercial rates is likely to fund 50%-75% of the construction costs. The estimated level of development funding would be c£4 - £6.75m for an office building of 60,000 sq ft gross. Whilst the loan will be subject to repayment by the developer, there is still the risk of borrower default. If default occurred, Invest NI would have to “step into the shoes” of the developer and take on the development risk. In providing the funding, Invest NI could exert some control over the letting of the accommodation to ensure that a proportion of the accommodation is available for letting to their qualifying businesses. There may be potential to utilise the Financial Transactions Capital to provide funding. However, the provision of development loan will only proceed if a scheme is shown to be commercially viable, in which case funding may be available from a bank.

By definition, the provision of gap funding will only occur where the scheme is not commercially viable. Given that a suitable level of developer’s profit would be included as an eligible development cost, then the issue of developer’s risk is dealt with. However, it is unlikely that a bank would be prepared to provide development funding for a scheme that is not commercially viable, unless an end purchaser can clearly be identified for the completed development, for example, an owner occupier. For this reason, gap funding would be more suited to an industrial development rather than an office development. There is no opportunity for Invest NI to recover the gap funding.

The provision of mezzanine finance or Invest NI taking an equity position in the development would assist where a developer did not have sufficient cash or was not prepared to risk the required level of cash to take the development forward. However, these interventions would still be dependent on the commercial viability of the scheme and the availability of bank development funding. There may be potential to utilise the Financial Transactions Capital to provide mezzanine funding. The estimated level of mezzanine funding is c£1.0m - £2.25m for an office building of 60,000 sq ft gross.

If Invest NI were to pre-let a development, it could agree a lease at a level of rent and lease length that would make the development commercially viable. The underlying long term security of rental income would provide an investment asset that would be attractive to developers, banks and investment purchasers. Invest NI would have the ability to influence the specification and supply of the accommodation to the requirements of their qualifying businesses. Whilst Invest NI would be taking on the sub-letting risk, there is the potential that there will nil net cost if the accommodation is fully sub-let. Given that Invest NI would be taking on the sub-letting risk, this incentive would be more applicable to locations and property types where there are good levels of occupier demand. For this reason, it would be suited to a Grade A office development in Belfast City Centre but not a large industrial development in a rural location. Given that the long term government income would enhance the development value, there may be an opportunity for Invest NI to include overage provisions for a profit share should the development be sold in excess of an agreed price.

Similarly, if Invest NI agreed to act as a lease guarantor on accommodation let to a qualifying business, it would also help to provide a long term secure income that will assist development viability.

Our research highlights that the main constraint that needs addressed in the short to medium term is the fact that industrial and office developments are not currently commercially viable. If schemes can be shown to be commercially viable, then the issues of development funding and developer appetite for risk are more likely to be overcome.

There is evidence that due to the shortage of supply of Grade A office space in Belfast City Centre and the level of occupier demand, that there is upward pressure on office rents which should help to improve development viability. However, tenants are still seeking flexible lease terms with the result that current lease lengths and covenant strengths may not be sufficient to drive down investment yields to a level that would make the development commercially viable.

Therefore, we recommend that Invest NI should consider taking an underlying lease or acts as a lease guarantor in respect of a Grade A office development, thereby providing a long term secure rental income that would make a development commercially viable and able to secure development funding.

Given that there is currently upward pressure on office rents and downward pressure on yields, the market may get to the point that office development becomes commercially viable. However, the availability of developer equity is still likely to remain limited for the foreseeable future.

We would therefore recommend, that should a scheme be considered to be commercially viable, Invest NI should consider providing mezzanine finance (at commercial rates) to assist in the provision of the required developer equity.

These interventions would constitute a relatively ‘light touch’ to the office market and may help to help to raise the bar in terms of specification and rents of office accommodation to a level that makes development commercially viable for private developers and provides an office product that is attractive to occupiers and investors.

Within the industrial sector, there is a substantial shortfall between industrial property capital values and development costs. Occupier demand for leasing or owner occupation is also generally ad hoc in nature. **Therefore, we recommend that Invest NI should consider a gap funding intervention, similar to the Private Developer Agreement, on the back of an identified industrial requirement from a qualifying business**.

8.4 Conclusions and Recommendations on Interventions Addressing Asymmetric Information

Our research has identified a number of areas where asymmetric information is impacting on the efficiency of the market. Table 8.1 outlines the nature of these issues and a range of proposed interventions to address them.

Table 8:1: Proposed Interventions to Address Asymmetric Information

Nature of Issue	Proposed Intervention
Qualifying businesses having difficulty in accessing funding and development process information/expertise	Augmentation of existing Invest NI Property web page and/or NI Business Info web site to include: • Details of property interventions and other sources of funding; • Guidance on taking forward property projects; • Examples of best practice; • Signposting to other sources of relevant information/expertise; and • Contact details of property developers, commercial agents/property consultants, solicitors and other relevant professionals.
Financial Institutions not being aware of Invest NI property support	• Augmentation of existing Invest NI Property web page and/or NI Business Info web site to included details of property interventions and other sources of funding (as above); and • Provision of regular briefings to financial institutions on property related matters.
Agents/developers not having a comprehensive feel for demand for accommodation by Invest NI clients	• Development of accessible/searchable database of client enquiries/requirements; and • Provision of monthly e-mail updates on live enquiries.

8.5 Indicative Intervention Costs and Proposed Delivery Mechanisms

The following sections provide an overview of next steps, issues and indicative (external) costs associated with each of the interventions recommended for consideration.

8.5.1 Provision of Underlying Lease or Lease Guarantee for a City Centre 'Grade A' Office Development

An improving economic environment and increased investor confidence has the potential to stimulate development activity within the local 'Grade A' office market, which would ultimately negate the need for public sector intervention. Although there are indications that the office market is starting to see rental growth, Invest NI should closely monitor market activity on an on-going basis to ascertain the need for the proposed intervention. This monitoring activity should include regular meetings with local property agent representatives.

Whilst monitoring the local property market, we recommend that Invest NI should consider seeking and obtaining all approvals required to implement the proposed intervention (i.e. should the need for the intervention be confirmed via market monitoring). Key steps in the implementation of this intervention will include, but will not be limited to:

- **Business Case development** – a HM Treasury ('Green Book') compliant Business Case should be developed to assess the value for money associated with the proposed intervention and in doing so, confirm the need and level of private sector interest in the intervention and assess the cost, benefits (including wider economic development benefits) and risk associated with a range of delivery options; and
- **Procurement -** Our understanding is that when a NI government body is to incur capital expenditure in order to acquire or develop a building for owner occupation, EU procurement processes will apply. However, these do not apply when a NI government body is seeking to lease a building. Consequently, the procurement process for this intervention should be similar to processes associated with the normal leasing of office accommodation, which will involve the issue of a market requirement, setting out: the geographical area within which the building is to be located; the required accommodation size; floorplates; specification; and the timescales.

Key activities and costs associated with the development and implementation of this intervention include:

- Business Case development (estimated at £15,000, assuming external consultants are used);
- Liaison with DETI and DFP on approvals (internal Invest NI cost);
- Development and issue of market requirement (internal Invest NI cost);
- Assessment of responses to market requirement (internal Invest NI cost);
- Development of agreement for lease (internal Invest NI cost);
- Marketing and sub-letting of property (estimated at c£120,000, reflecting letting agent and legal fees, based on 10% and 5% of first year rental for on a 51,000 sq ft property (Net[14])); and
- Rental payments relating to unlet space – c£15-£18 per sq ft for unlet space, potentially reducing to nil for sub-let space.

[14] Equating to 60,000 sq ft Gross

8.5.2 Provision of Mezzanine Finance for a City Centre 'Grade A' Office Development

Whilst the development of Grade A offices is not currently commercially viable, there is evidence of upward pressure on rents and downward pressure on yields, which may lead to the market considering an office development to be commercially viable. Nevertheless developer equity and development appetite is likely to remain limited for the foreseeable future.

Whilst monitoring the Northern Ireland office market, we recommend that Invest NI should consider seeking and obtaining all approvals required to implement the proposed intervention (i.e. should the need for the intervention be confirmed via market monitoring). Key steps in the implementation of this intervention will include, but will not be limited to:

- **Business Case development** – a HM Treasury ('Green Book') compliant Business Case should be developed to assess the value for money associated with the proposed intervention and in doing so, confirm the need and level of private sector interest in the intervention and assess the cost, benefits (including wider economic development benefits) and risk associated with a range of delivery options; and
- **Procurement** – We understand that should this type of intervention be considered appropriate, that finance is likely to be provided through the availability of Financial Transactions Capital. This will be subject to the formal approval process for such funding between HM treasury and the NI Executive.

Key activities and costs associated with the development and implementation of this intervention include:

- Business Case development (estimated at £15,000, assuming external consultants are used);
- Liaison with DETI, DFP and HM Treasury on approvals (internal Invest NI cost);
- Preparation of loan documentation (cost passed to developer); and
- Loan administration (internal DETI/DFP cost which may be off-set by loan interest payments).

8.5.3 Provision of Property Development Agreement Funding for Industrial Buildings

Key activities and costs associated with the development and implementation of this intervention include:

- Business Case development (estimated at £10,000, assuming external consultants are used);
- Liaison with DETI and DFP on approvals (internal Invest NI cost);
- Scheme marketing (internal Invest NI cost);
- Assessment of funding requests (internal Invest NI cost);
- Funding management and control (internal Invest NI cost); and
- Provision of development funding (see below).

Appendix 3 provides an illustrative development appraisal for a 50,000 sq ft industrial property, which identifies a development shortfall of c£975,000. Given the bespoke nature of this type of development, we would anticipate only c1 development per annum. N.B. Funding would be capped at 30% of total development costs, as per European Union State Aid regulations. In the example provided, this capped amount equates to c£840,000.

8.5.4 Provision of Information and Engagement with Key Sector Stakeholders

Key activities and costs associated with the development and implementation of this intervention include:

- Augmentation of existing Invest NI Property web page and NI Business Info web site (internal cost to Invest NI);
- Provision of regular briefings to financial institutions on property related matters (internal cost);
- Development of an accessible/searchable agent database providing client enquiries/requirements (c£5,000 for external costs relating to database/web site development and on-going internal cost re updating database); and
- Provision of monthly e-mail updates on live enquiries (internal cost).

APPENDIX 1: ILLUSTRATIVE DEVELOPMENT APPRAISAL FOR A 'GRADE A' OFFICE BUILDING

NI Office Development Appraisal

Assumptions

Total GIA sq ft	60,000
NIA % of GIA	85%
Total NIA sq ft	51,000
Rent per sq ft	£ 15.75
Net Initial Yield	7.00%
Percentage floorspace pre-let	100%
Site Acquisition Cost	£ -
Construction Cost per sq ft	£ 120
Pre Construction Period (months)	12
Construction Period (Months)	12
Letting Void (months)	12
Rent Free Period (months)	12
Finance Loan to Cost	50%
Finance Rate of Interest	5.50%

Investment Valuation	Rent		Net Initial Yield	YP		
Offices - Pre-let	£ 803,250	YP @	7.00%	14.2857	13.351135	£ 10,724,299
		PV @	7.00%	0.9346		
Offices -Vacant	£ -	YP @	7.00%	14.2857	12.477696	£ -
		PV @	7.00%	0.8734		
Gross Development Value						£ 10,724,299
Less Purchaser's Acquisition Costs @	5.80%					£ 587,911
TOTAL NET DEVELOPMENT VALUE						**£ 10,136,389**
DEVELOPMENT COSTS						
SITE COSTS						
Site Acquisition Cost					£ -	
Purchaser's Acquisition Costs	5.80%				£ -	
Total Site Cost						**£ -**
PLANNING COSTS					say	**£ -**
CONSTRUCTION COSTS	**GIA (sq ft)**	**Cost per Sq Ft**	**Total**			
Demolition			£ -			
Office Construction	60,000	£ 120	£ 7,200,000			
Preliminaries			£ -			
Basement Car Parking	0	£ 25,000	£ -			
Total Construction Cost						**£ 7,200,000**
PROFESSIONAL FEES	10.00%	of construction cost				**£ 720,000**
CONTINGENCY	5.00%					**£ 396,000**
OTHER COSTS						
Rates Voids Cost	£ 7.50	per sq ft		£ -		
Service Charge Void Costs	£ 3.50	per sq ft		£ -		
Total						**£ -**
MARKETING AND LETTING						
Marketing and Promotion Costs				£ 10,000		
Agents letting fees			10.00%	£ 80,325		
Legal letting fees			5.00%	£ 40,163		
TOTAL						**£ 130,488**
DISPOSAL FEES						
Agent's selling fees			0.75%	£ 76,023		
Legal selling fees			0.38%	£ 38,011		
Total						**£ 114,034**
FINANCE	Loan Amount					
On Site Cost	£ -			£ -		
On Construction Cost	£ 8,316,000			£ 225,629		
Total Finance Cost						**£ 225,629**
TOTAL DEVELOPMENT COSTS						**£ 8,786,151**
TOTAL DEVELOPMENT PROFIT						**£ 1,350,238**
DEVELOPMENT PROFIT as % of Development Costs						**15.37%**
DEVELOPMENT PROFIT as % of Net Development Value						**13.32%**

Change in Development Profit assuming construction costs fixed at £120 per sq ft					
Rent per sq ft	Net Initial Yield				
	7.00%	7.50%	8.00%	8.50%	9.00%
£12.00	-£1,007,350	-£1,549,571	-£2,023,726	-£2,441,831	-£281,323
£13.00	-£378,660	-£966,066	-£1,479,734	-£1,932,682	-£2,335,032
£14.00	£250,030	-£382,561	-£935,742	-£1,423,532	-£1,856,832
£15.00	£878,720	£200,944	-£391,750	-£914,382	-£1,378,633
£16.00	£1,507,410	£784,449	£152,242	-£405,232	-£900,433
£17.00	£2,136,100	£1,367,954	£696,234	£103,918	-£422,233
£18.00	£2,764,790	£1,951,459	£1,240,225	£613,067	£55,967

Change in Development Profit assuming rent fixed at £15 per sq ft					
Construction Cost per sq ft	Net Initial Yield				
	7.00%	7.50%	8.00%	8.50%	9.00%
£100	£2,032,325	£1,624,549	£1,031,855	£509,223	£44,972
£110	£1,590,523	£912,746	£320,052	-£202,580	-£666,830
£120	£878,720	£200,944	-£391,750	-£914,382	-£1,378,633
£130	£166,918	-£510,858	-£1,103,353	-£1,626,184	-£2,090,435
£140	-£554,885	-£1,222,661	-£1,815,355	-£2,337,987	-£2,802,237
£150	-£1,256,687	-£1,934,463	-£2,527,158	-£3,049,789	-£3,514,040

Change in Development Profit assumming exit yield fixed at 7.0%						
Rent per sq ft	Construction Cost per sq ft					
	£100	£110	£120	£130	£140	£150
£12.00	£416,255	£295,547	-£1,007,350	-£1,719,152	-£2,430,955	-£3,142,757
£13.00	£1,044,945	£333,143	-£378,660	-£1,090,462	-£1,802,265	-£2,514,067
£14.00	£1,673,635	£961,833	£250,030	-£461,772	-£1,173,575	-£1,885,377
£15.00	£2,032,325	£1,590,523	£878,720	£166,918	-£554,885	-£1,256,687
£16.00	£2,931,015	£2,219,212	£1,507,410	£795,608	£83,305	-£627,997
£17.00	£3,559,705	£2,847,902	£2,136,100	£1,424,298	£712,495	£693
£18.00	£4,188,395	£3,476,592	£2,764,790	£2,052,987	£1,341,185	£629,383

APPENDIX 2: BENCHMARKING INFORMATION

Property Development Intervention Benchmarking: Strategic Overview

Country	Strategic Rationale	Legal Authority	Delivery Bodies
Republic of Ireland	Property interventions in the Republic of Ireland are strategically aligned with the National Spatial Strategy and are designed to support the Gateway[15] approach to regional development. Central Government property funding is orientated towards the following geographic priorities: • Gateways and Hub Locations. There are nine competitive, national gateways[16] which are in turn are supported by a range of other significant urban areas, including nine local hubs. Strategic property interventions are mainly delivered through the gateways, whilst the hubs are smaller scale and more focus on meeting the needs of indigenous firms. Below the strategic level, there is a recognition of the need to be responsive to local market conditions.	IDA activities are governed by the Industrial Development Acts 1986 to 2003. The legislation provides for the disposal of IDA owned land for the purposes of manufacturing or international traded services activities only with sales for other purposes requiring Ministerial sanction Compliance with this requirement is controlled through the sale of land on a long lease basis whereby IDA dispose of the leasehold interest by way of a 999 year lease with a restricted user clause.	Property development is delivered through the three main economic development functions: • Industrial Development Agency (IDA) Ireland; • Enterprise Ireland (EI); and • County Enterprise Boards (now replaced with Local Enterprise Offices). The first two organisations are charged with meeting the property needs of strategically important companies (both indigenous and Foreign Direct Investment) principally in the main gateways and hubs as outlined in the National Spatial Strategy. The former County Enterprise Boards were charged with addressing more localised property needs, principally start-ups and was focused on provision of property grants to both businesses and developers.
Scotland	In order to drive sustainable economic growth,	All public sector property support in Scotland is	Property support is delivered by the

[15] The Gateway approach reflects priority settlements around which regional development strategy plans take account of the locational behaviour and requirements of the next generation of Foreign Direct Investment projects, infrastructure capacities, the importance of building critical mass and leveraging the advantages of existing sectoral clusters.
[16] The nine gateways are Dublin, Cork, Galway, Limerick/Shannon, Waterford, Sligo, Dundalk, Letterkenny/Derry and Athlone/Tullamore/Mullingar.

Country	Strategic Rationale	Legal Authority	Delivery Bodies
	the Scottish Government's Economic Strategy identifies six Strategic Priorities of which two relate to property support: • Maintaining and developing a Supportive Business Environment, with a focus on growth companies, growth markets and growth sectors; and • Infrastructure Development and Place – to harness the strength and quality of the cities, towns and rural areas to take advantage of the opportunities offered by the digital age. Scottish property support has the following geographical priorities: • Growth sectors, markets and companies (primarily supported through Enterprise Zones and a number of sector specific business/science parks and associated office developments); and • Cities and their regions (primarily supported through Urban Regeneration Companies).	authorised under the Scottish Property Support Scheme. The purpose of the scheme is to support the development of premises and buildings for commercial purposes by the private sector. Such development can involve the construction of new buildings and/or the renovation and conversion of existing one. The Scheme identified the following market failures: • Funding gap: where the estimated development of the property exceeds its estimated market value; and • Asymmetric information/demonstration effect: where risk aversion and uncertainty in forecasting project outcomes prevents property development. Projects can be classified into two categories: • They can support speculative developments. In these cases, aid is given to the developer who initiates the project. The developer is free to rent or sell the subsidised premises; and • They can also support bespoke developments for known end users. In this	following organisations in Scotland: • Enterprise Agencies; • Local Authorities; • Urban Regeneration Companies; and • Enterprise Areas. All of the aforementioned organisations deliver property support under the authority of the Scottish Property Support Notified Scheme. The two enterprise agencies (Scottish Enterprise and Highlands and Islands Enterprise) are focused on servicing the needs of Foreign Direct Investment and of strategically important 'client managed companies'. Local Authorities (often in conjunction with the relevant enterprise agency) tend to deliver non-strategic, locally impacting property interventions. Urban Regeneration Companies (joint delivery bodies of local authorities and enterprise agencies) primarily target geographical areas in need of regeneration and suffering from socio economic deprivation. Under the powers of the

Country	Strategic Rationale	Legal Authority	Delivery Bodies
		case as well, aid is directly paid out to the developer who undertakes the work.	Scottish Property Support Scheme, URCs are able to develop office space for the local and FDI markets of variable grade (dependent on the property need of the area served). The Scottish Government has adopted an Enterprise Area approach[17], which seeks to capitalise on opportunities within specific sectors in particular locations, where knowledge and natural resources already exist but support is needed to fully realise their potential. Fifteen locations have been identified across Scotland to specifically promote one of four growth sectors. The sectors are as follows: • Life Sciences; • Low Carbon/Renewables North; • Low Carbon/Renewables East • General Manufacturing /Growth Sectors. Each Enterprise Area is able to provide up to a 50% capital expenditure grant. The Enterprise Areas can also provide capital allowances on building costs, rent relief (in

[17] Enterprise Areas have a 5 year designation from April 2012. The need for this designation will be then be revisited after this period.

Country	Strategic Rationale	Legal Authority	Delivery Bodies
			some cases) and non-property support relating to business start-up finance and workforce development services.
Wales	The Wales Spatial Plan determines where property investment is to take place. The principal focus is on key settlements, support for which is defined through the Regeneration Investment Fund for Wales and is aimed at supporting the emerging city region agenda: (with a focus on Cardiff and Swansea). The core objectives of the Regeneration Investment fund for Wales are: • Leverage additional private sector investment into the Fund that can be invested in regeneration schemes throughout Wales; • Create a sustainable legacy by generating returns that can be reinvested into future schemes in Wales; and • Create a long term investment vehicle that helps to deliver key public policy objectives for the Welsh Government in line with the Programme for Government. However, given the 'deeply rural' nature of Wales, the plan is aware of smaller settlements and the needs of their wider hinterlands, and	All property support in Wales is supported under the Welsh Property Development Scheme. The main objective of the scheme is the development of new or the upgrading/extension of existing business sites and premises for either speculative or bespoke schemes where there is a deficit between the costs of the projects and the value of the completed developments. Recipients must demonstrate that the aid is required for projects to proceed including that there is an economic gap between cost and value. Funding is not awarded where the activity has already started before an application for support is made. In addition, aid is not awarded to large enterprises unless the enterprise can establish that, if the aid is awarded, one or more of the following criteria is met: • There is a material increase in the size of the project/activity; • There is a material increase in the scope of the project/activity;	Unlike other devolved administrations of the UK, there is no longer a bespoke economic development agency for Wales, the functions of the Welsh Development Agency have been subsumed by other Welsh Assembly Government Departments and also Local Government. Property advice and signposting is delivered by Business Wales, who assist companies from all sectors from start-up to business growth. Business Wales also undertakes property support for FDI. The Welsh Government, including Business Wales and Finance Wales in conjunction with Local authorities also provides grants and loans to both SMEs and developers to address specific constraints. In common with the other jurisdictions, there is both a strategic and tactical approach to property provision. Strategic activities undertaken through the Regeneration Investment Fund and the Enterprise Zones.

Country	Strategic Rationale	Legal Authority	Delivery Bodies
	local authorities are given to discretion to address these gaps in property provision.	• There is a material increase in the total amount spent by the enterprise on the project/activity • There is a material increase in the speed of completion of the project/activity concerned; and • Assisted areas: without the investment the project would not have been carried out in the assisted region.	Tactical or localised property support has largely been delivered by a relevant Local Authority as funded by the Rural Development Programme. The focus of the regeneration investment fund in Wales is on infrastructural investment, there has been direct investment in high grade office provision aimed specifically at the emerging FDI market (for financial services) and indigenous company support within the Creative Industries sector, for examples: • Welsh Government investment at the SA1 Waterfront in Swansea has secured 1,800 jobs across Wales. Some 96 acres of redundant contaminated port land has been transformed into a business and retail park; • In Cardiff, the first stage of the Roath Basin is complete and included the development of the BBC Wales Drama Village. Plans are in place to construct 40,000 sq ft of bespoke office space for the Creative Industries; • Both projects have been funded under

Country	Strategic Rationale	Legal Authority	Delivery Bodies
			the JESSICA programme[18]; • Enterprise Zones: There are at present seven in Wales and they each off the following support; • Access to subsidised commercial finance for speculative build[19]; and • For inward investment: a grant of between 10-50% of capital expenditure and usually relates to fit out costs as there is existing speculative property provision

[18] A Joint European Support for Sustainable Investment in City Areas (JESSICA). The fund can be used for commercial development with proven regeneration credentials. JESSICA can provide the following support to property developers: senior loans, mezzanine loans, equity investment alongside a second independent third party investor and guarantees for senior loans.

[19] Finance Wales supports Welsh SMEs providing debt, equity and mezzanine investments of between £1,000 and £2million. SMEs located in Welsh Enterprise Zones can benefit from a 2% reduction in the interest rates charged on new loans.

Assessment of Services by Jurisdiction

The following table focuses on the activities of three comparator organisations (i.e: IDA, SDI and Business Wales) in order to profile similarities/differences in approach in terms of:

- Provision of property advice;
- Coordination between developers and prospective companies;
- Provision of funding advice;
- Sectoral differentiation of property support; and
- Specific delivery mechanisms.

	Services provided by jurisdiction		
Issues	**Ireland**	**Scotland**	**Wales**
Provision of property advice	• Initial online guidance; and • Follow up advice for target companies[20] by a Client Executive from either IDA or EI.	• Initial online guidance; and • Follow up advice for target companies[21] by a Client Executive.	• Initial online guidance; and • Follow up advice for a company which meets Business Wales criteria[22].
Coordination between developers and prospective companies.	• Developers can promote individual properties on the IDA portal. Potential clients can then book appointments to visit the premises and/or gain access to more detailed property related information;	• Developers can promote individual properties on SDI portal. Potential clients can then book appointments to visit the premises and/or gain access to more detailed property related information;	• Developers can promote individual properties on the Locate in Wales portal. Potential clients can then book appointments to visit the premises and/or gain access to more detailed property related information;

[20] The target companies must have or expect to have within 12 months over 5 employees and/or a turnover of €150,000
[21] Inward investment or indigenous companies with over 5 employees and/or a turnover of £100,000

[22] Must be VAT registered and have an anticipated turnover in excess of £75,000

	Services provided by jurisdiction		
Issues	**Ireland**	**Scotland**	**Wales**
	• IDA's cluster approach promotes coordination between developers and perspective companies. IDA property advisers work in conjunction with specific sites.	• Scottish Enterprise (SE) has science parks, enterprise areas and URCs where it encourages promoters to invest and signpost potential clients. SDI/SE property advisers work in conjunction with specific sites.	• Business Wales is starting to encourage Promoters to invest in area regeneration initiatives and business advisers signpost potential clients to these sector specific sites.
Provision of funding advice	• Initial online guidance identifies a range of grants and loans; • Client Executives identify an array of grants which companies may potentially access; and • IDA works with external funding intermediaries to development loan/equity propositions.	• Initial online guidance identifies a range of grants and loans; and • Client Executives direct companies to apply for either grant support under Regional Selective Assistance or to access finance from Scottish Investment Bank.	• Initial online guidance identifies a range of grants and loans; and • Client Executives can direct SMEs to grant support (if in eligible area) under Regional Selective Assistance/ Rural Development Programme or to access a subsidised loan from Finance Wales.
Specific property interventions to support: • FDI; • Priority sectors; • Regeneration; and • Business	• As part of the FDI proposition, IDA provides a comprehensive property support service, including: • Review of business locations (including travel to work analysis); • Detailed property search; • Organised site visits; • Introduce businesses to wider	• As part of the FDI proposition, SDI provides a comprehensive property support service, including: • Review of business locations (including travel to work analysis); • Detailed property search; • Organised site visits; • Introduce businesses to wider	• As part of the FDI proposition, Locate in Wales provides a comprehensive property support service, including: • Review of business locations (including travel to work analysis); • Detailed property search; • Organised site visits; • Introduce businesses to wider innovation

	Services provided by jurisdiction		
Issues	**Ireland**	**Scotland**	**Wales**
Starts/ Growth agenda.	innovation ecosystem; and • Funding support for business fit out/specific lease agreements. • Support for priority sectors is focused on Gateway/Hub Sites; and • Support for indigenous business starts/growth is also focused on Gateway/Hub sites. Small scale developments are also funded at the discretion of the County Enterprise Board servicing a highly localised need.	innovation ecosystem; and • Funding support for business fit out/specific lease agreements. • Support for priority sectors is focused on existing Science Parks, and Enterprise Areas; • Regeneration activity is focused on specific urban regeneration areas; and • Support for indigenous business starts/growth is also directed (according to sector and stage of growth) to relevant science/business parks. In addition, there is also discretionary support given to specific developers to address localised market failures.	ecosystem; and • Funding support for business fit out/specific lease agreements. • Support for priority sectors is focused on existing Science Parks, and Enterprise Areas; • Regeneration activity is focused on specific urban regeneration areas; and • Support for indigenous business starts/growth is also directed (according to sector and stage of growth) to relevant science/business parks. In addition, there is also discretionary support given to specific developers to address localised market failures.
Review of specific delivery mechanisms			
Acquisition	• Acquisition of target properties and also land assembly.	• Acquisition of target properties and also land assembly.	• Acquisition of target properties and also land assembly.

	Services provided by jurisdiction		
Issues	**Ireland**	**Scotland**	**Wales**
Development grants[23]	• Yes, grant support available for gap funding of both speculative build and fit out (for either property developers or end users).	• Yes, grant support available for gap funding of both speculative build and fit out (for either property developers or end users).	• Yes, grant support available for gap funding of both speculative build and fit out (for either property developers or end users).
Mezzanine funding	• It is not clear what role if any, Enterprise Ireland and/or IDA have in the provision of mezzanine loans.	• Yes, this is provided via the Scottish Investment Bank.	• Yes, this is provided via Finance Wales.

[23] The development grant will be a gap funding grant sufficient to allow the project to proceed under market conditions. The maximum award for any project will normally be the gap between eligible costs and the estimated market value.

Issues	Ireland	Scotland	Wales
Lease guarantor	• Yes, mainly delivered by IDA to smaller scale inward investors. Owing to the importance of ICT amongst FDI, which tends to open small speculative branch offices, lease guarantees are increasingly being used.	• Yes, Scottish Enterprise acts as a lease guarantor for Start- ups.	• Yes, mainly delivered by Business Wales to start ups
Equity stakes/Joint Ventures	• Yes, the IDA is increasingly working with NAMA to fund speculative builds for strategic inward investment.	• Yes, equity support may be provided via the Scottish Investment Bank.	• Yes, equity support may be provided via Finance Wales; and • The use of JESSICA funding has facilitated joint ventures with private sector developers.
Taking underlying lease and subletting the accommodation	• Yes, IDA has been developing multi-occupancy office blocks aimed at attracting early stage FDI.	• Yes, Scottish Enterprise has utilised this power in a number of town centre developments to meet local demand.	• Yes, Welsh Government has been using this to attract inward investment.

APPENDIX 3: ILLUSTRATIVE INDUSTRIAL DEVELOPMENT APPRAISAL FOR 50,000 SQ FT BUILDING

NI Industrial Development Appraisal

Assumptions

Pre Construction Period (months)	6
Construction Period (Months)	12
Letting Void (months)	0
Rent Free Period (months)	0
Finance Loan to Cost	50%
Finance Rate of Interest	5.50%

	Investment Valuation	**GIA (Sq Ft)**	**Rent per Sq Ft**	**Total Rent p.a.**	
	Industrial - Pre-let	50,000	£3.00	£150,000	
	Capitalisation Yield			7.75%	
A.	**TOTAL NET DEVELOPMENT VALUE**				**£ 1,829,380**
	DEVELOPMENT COSTS				
	SITE COSTS				
	Site Acquisition Cost			£ 150,000	
	Purchaser's Acquisition Costs	5.80%		£ 8,700	
	Total Site Cost				**£ 158,700**
	PLANNING COSTS				
		GIA (sq ft)	**Cost per Sq Ft**		
	Industrial Construction	50,000	£ 40		
	CONSTRUCTION COSTS				**£ 2,000,000**
	PROFESSIONAL FEES	8.00%	of construction cost		**£ 160,000**
	MARKETING AND LETTING				
	Marketing and Promotion Costs			£ 5,000	
	Agents letting fees	10.00%		£ 15,000	
	Legal letting fees	5.00%		£ 7,500	
	TOTAL				**£ 27,500**
	DISPOSAL FEES				
	Agent's selling fees		0.75%	£ 13,720	
	Legal selling fees		0.38%	£ 6,860	
	Total				**£ 20,581**
	FINANCE	Loan Amount			
	On Site Cost	£ 158,700		£ 13,271	
	On Construction Cost	£ 2,160,000		£ 58,605	
	Total Finance Cost				**£ 71,876**
	DEVELOPER'S PROFIT	15%	OF COSTS		**£ 365,798**
B.	**TOTAL DEVELOPMENT COSTS**				**£ 2,804,455**
	TOTAL DEVELOPMENT SHORTFALL (B-A)				**£975,075**
	DEVELOPMENT SHORTFALL as % of Total Development Costs				-34.77%