

Evaluation of Gosport Business Centre

January 2007



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1: Introduction

- 1.1 In October 2006, SQW was commissioned by SEEDA to review the performance of the Gosport Business Centre located on the Frater Gate Business Park between Gosport and Fareham.
- 1.2 The Centre comprises 25,508 sq ft of net lettable space divided into small office and workspace units. Its development and construction was project managed by Basepoint plc (Basepoint) who is now managing the Centre. The Centre was opened in June 2004.
- 1.3 The brief from SEEDA is attached at Annex A, as is SQW's response to that brief in a letter dated 16 October 2006. Essentially, the brief asks SQW to review the scheme so that, first, it can inform decisions about a possible further phase of development on a vacant site adjacent to the Centre and, second, as the Centre is the first of a number of proposed centres to be developed by SEEDA, to draw out "what has worked and what has not" to inform the development of future schemes.
- 1.4 In particular, the brief seeks answers to the following core questions:
- the development, cost, project management and financial performance of the Centre
 - the wider economic benefits from the development of the Centre.
- 1.5 In carrying out the brief, SQW has:
- visited the Centre, discussed the scheme with the Centre manager and viewed a number of the units
 - met and discussed the performance of the scheme with SEEDA's project managers and Basepoint
 - examined the Project Investment Stage 1 and Stage 2 Appraisals (including Appendices 1 to 7) prepared by SEEDA (referred to in this paper as PIS 1 and PIS 2) and appraisals, information and financial information prepared by Basepoint
 - carried out a survey of tenants of the Centre
 - carried out a number of consultations with players in the local economic development market, and
 - interviewed and prepared case studies involving five tenants.
- 1.6 It should be emphasised that SQW has not carried out a conventional "accountancy type audit" and has not examined files relating to the project or examined in any detail Basepoint's practices and procedures; SQW would expect these to be the subject of an audit in due course. In commenting on the performance of the Centre, SQW has relied upon the information

forwarded in PIS 1 and PIS 2, discussions with Basepoint and appraisals, information and financial information prepared by this company.

1.7 In the remainder of this report:

- Chapter 2 provides a description of the Centre, examines its financial performance and comments on professional practice issues
- Chapter 3 sets out the findings from the survey of occupiers
- Chapter 4 looks at the wider contribution of the Centre to the local economy, and
- Chapter 5 provides conclusions and recommendations.

1.8 Supporting information is presented in two Annexes. Annex A contains the terms of reference for the assignment and SQW's response; Annex B lists our consultees; Annex C compares the scheme's performance against the latest estimated position.

2: The Centre's financial performance and comments on professional practice issues

- 2.1 In this chapter, we first describe the Centre and then, with the help of an appraisal prepared by Basepoint on 20 May 2003 compare its anticipated performance with an estimated up-to-date performance at December 2006. We then look at the various elements in the appraisal and comment on professional practice issues.

Description

- 2.2 The Gosport Business Centre is located on the Frater Gate Business Park between Gosport and Fareham. The Centre was completed in June 2004 and is constructed in brick and cladding. It comprises two storey and single storey accommodation set around a central courtyard area accommodating 106 car parking spaces.
- 2.3 There is an adjacent area of vacant land to the northwest of the Centre which could accommodate a further phase of workspace development and land to the northeast of the site, which was purchased by SEEDA, has been developed for office and workspace units.
- 2.4 The Centre offers 25,508 sq ft of net lettable space with 15,433 sq ft of office accommodation, varying in unit sizes from 170 to 600 sq ft and 9,075 sq ft of workshops varying from 450 to 810 sq ft; a number of these workshops are fitted with mezzanine floors.
- 2.5 The Centre has a central reception area approached from its main entrance and an adjacent area providing seating and kitchen facilities.
- 2.6 In design and layout terms, our overall impression is that the Centre's building specification is "about right for its location". It has also achieved an environmental assessment award from BREEAM with a rating of very good. In discussions with Basepoint there were thoughts that perhaps too much space had been allocated to the reception area, but we can see that the reception area provides light open space which enhances the overall development.

The Centre's financial performance

- 2.7 We enclose at Annex C a table which compares the scheme's performance against the latest estimated position. The appraisal draws on:
- an appraisal prepared by Basepoint dated 20 May 2003 (reference Gos 18 and referred to in this paper as the 03 Appraisal); we have selected this appraisal because, from discussions with SEEDA, it appears to be the last appraisal before the Agency was committed to the building contract at Gosport; we have also seen further appraisals prepared by Basepoint of 31 March 2003 (Gos 16) and the 6 May (Gos 17)
 - an up-dated appraisal along the lines of the 03 Appraisal format which sets out its estimated position at December 2006; this appraisal draws on discussions with

Basepoint, financial information prepared by Basepoint for the half year to the end of September 2006 and estimates for the remainder of the year.

- 2.8 We would comment that the 03 Appraisal does not include a number of elements that we would expect to see in an appraisal:
- no allowance has been made for a sum to compensate for unlet space before the Centre reaches an anticipated 85% occupancy level – this is usual practice in private sector appraisals
 - no amount appears to have been included for preliminary fees and the land cost (these were included in PIS 2), and
 - no interest on finance has been allowed for holding the site and for interest during construction; but we understand that this is not an uncommon practice in public sector appraisals.
- 2.9 Apart from PIS 2 including sums for preliminary fees and a contingency, the costs reported at Appendix B of the main submission appear to be in line with the 03 Appraisal. However, there is a significant difference between the completed value of the scheme reported in PIS2 and the 03 Appraisal.
- 2.10 SEEDA's Form PIS 2 which gave authority for major expenditure was authorised by an Executive Director on 20 May 2003 and we understand from SEEDA that the counter signatures that followed would have confirmed an earlier board approval. Essentially, PSI2, at Appendix B of the main submission, reports an estimated completed value of £2,530,629 and a similar figure appears in Appendix 7 of related papers which we understand were prepared by DTZ and refer to a Basepoint appraisal which was not attached to our papers. This figure should be compared with the completed value of £2,025,125 in the 03 Appraisal prepared on 20 May and we understand before SEEDA was committed to the building contract. Essentially, at the time the PS21 was authorised, there was information to show that the estimated completed value had fallen by £515,504 and the estimated gap thereby increased by this figure.
- 2.11 We believe the figure of £2,530,620 may have been taken from an earlier Basepoint appraisal, perhaps Gos 17, and the difference in the completed value of the scheme reported in PS12 and the 03 Appraisal would appear to be mainly due to a figure not being included for Basepoint's surplus income fee of £58,803 per annum. We suspect that this issue occurred at a time when authorisation and construction processes were probably moving at a fast rate.

Recommendation

- 2.12 *We recommend that in future there should be one identified "master appraisal" prepared before PIS 2 is submitted and SEEDA is committed to major expenditure. This appraisal should:*
- *be confirmed and signed by SEEDA and the project manager and form the basis for the figures in the PIS2 and subsequent authorisations, and*

- *contain all relevant costs including, preliminary expenditure on fees, a sum to compensate for unlet space before a scheme reaches its anticipated occupancy and a cost for the land.*

2.13 *We would also recommend that the identified master appraisal should be carefully recorded and used as a benchmark for reviewing the performance of schemes.*

2.14 Overall, there is a small improvement in the “gap” shown in the 03 Appraisal and the updated appraisal at December 2006 - £2,210,282 as opposed to £2,157,876. However, the picture is one whereby the anticipated net income in the 03 Appraisal has fallen but has been compensated by a lower investment yield; costs broadly remain the same.

2.15 We now examine the various elements of the table; first turning to the development value side of the equation and then the costs. We have included a figure for the land in the appraisals, but not the other costs referred to in para 2.8.

Item	Appraisal 20.05.03	Estimated December 2006
Gross income	608,860	582,868
Less rates	109,595	85,268
Net income after rates	499,265	497,600
Less voids (15%)	74,890	114,448 (23%)
Net income after void	424,375	383,152
Centre running costs	130,000	151,064
Net income	294,375	232,088
Management fee	-	60,526
Surplus income fee	58,803	4,668
Net income	235,573	166,894
Yield 11%	2,141,570	2,086,175 (8%)
Telecommunications: net income 16,926 say x 4	-	67,704
Total	2,141,570	2,153,879
Less fund cost 5.75%	116,445	123,848
Net development value	2,025,125	2,030,031

Comments

2.16 We group our comments on the development value under the headings:

- Net income (to encompass gross income, rates, voids)
- Centre costs and management

- Yield.

Net income

- 2.17 The gross income of £582,868, which assumes all units are income producing, is slightly below the forecast figure of £608,860.
- 2.18 On a related note, estimated voids which were taken as being 15% (PIS 2 refers to meeting this 15% target two years after completion) are running at around 23%.
- 2.19 We understand from discussions with Basepoint that the workshops have let well as have the smaller offices, but there has been a resistance to larger offices; some works of sub division have been carried out and the position will be kept under review.
- 2.20 We would not be critical of performance at this stage. It is always difficult to estimate the exact size of units in untried schemes such as Gosport and there appears to be a reasonable chance that the occupancy could reach the target 85% in due course. It should also be remembered that PIS 2 reported a risk both in terms of achievable rents and the speed with which occupancy could be achieved.

Recommendation

- 2.21 *We comment on lettings later in this chapter under the heading of marketing.*

Centre costs and management

- 2.22 In addition to the omission of the surplus income fee referred to at para 2.11, there appears to have been a further underestimate of Centre running costs and management-related costs. The 03 Appraisal allows a figure of £130,000 to cover all costs, apart from a surplus income fee to Basepoint of £58,803, making a total of £188,803. The 2006 appraisal shows Centre costs, management costs and surplus income fee totalling £216,258.
- 2.23 We have discussed this with Basepoint and agree that some elements of the difference can be attributed to gas and electricity prices and other small items. However, the main reason for the increase in costs in the 2006 appraisal appears to be an under-provision for running costs and an assumption perhaps that these could accommodate Basepoint's management fee; in practice, the cost of the management fee has been offset by a reduction in the surplus income fee.

Recommendation

- 2.24 *Clearly, future schemes should review the level of costs, including management and surplus management fees, carefully.*
- 2.25 In terms of management fees, we understand that Basepoint was originally intending to develop the scheme in its own right with assistance from gap funding but that this was prevented by State Aid Rules. At the same time, SEEDA was keen to push forward with an incubator scheme and there were a limited number of project managers in the area at this time who could take the scheme forward on behalf of SEEDA. Basepoint's negotiating position

was fairly strong, therefore, and is reflected in the terms of the management agreement which gives Basepoint:

- A 15-year term
- A management fee of £10,000 per annum together with 30% of the operating costs of the centre
- A telecommunication fee of 15% of the gross telecommunication income
- A surplus income fee of 50% of any surplus income after allowable costs and a priority return of 4.5% per annum to SEEDA for its capital investment.

2.26 We understand that the costs of the Centre manager, receptionist and part-time handyman and other expenses are included within the Centre's running costs and consequently, at the present time, Basepoint is receiving a:

- Management and surplus income fee estimated at £65,194 for the current financial year; this fee covers Basepoint's central overheads and the costs of all the personnel who participate in the management of the Centre, excluding the Centre manager and his team and Basepoint's telecommunications team
- Telecommunications fee, estimated at £9,671 for the 2006/7 financial year. By way of benefit, the fee covers the technical management of the telecommunications and broadband systems, back-up and technical support. We understand that the arrangement allows the Centre to benefit from competitive telecommunication costs as costs for the Gosport scheme are negotiated alongside a number of Basepoint's centres.

2.27 Whilst the amount of fee which Basepoint can expect to earn for 2006/7 does not appear unreasonable, we have reservations about the terms negotiated and, in particular:

- We would prefer the management fee to be a fixed fee rather than one based on a percentage of running costs
- The arrangements for the surplus income fee appear generous and the fee could become an expensive item, particularly as it has been agreed for 15 years; we would wish to see it capped at a fair level
- We believe a 15-year term is too long for this type of arrangement; it can place the manager in an advantageous position should the owner wish to dispose of his interest because other centre managers, who are often prospective purchasers, may be reluctant to bid with a long term management contract in place.

2.28 Having said this, we accept that since the contract was signed, SEEDA has entered into a framework agreement with Basepoint that allows it to terminate arrangements after six years, calculates the management fee on a fixed basis and caps any surplus income fee.

Recommendation

- 2.29 *We recommend that future arrangements should have a limited length of term – five or six years, management fees should preferably be on a fixed basis and incentive fees should be capped; we accept that there can be a need for an additional fee for specific services such as telecommunication.*

Yield

- 2.30 The 03 Appraisal used a yield of 11%, but since that time yields have hardened as investors have grown more comfortable with low levels of interest rates and there has been an increasing amount of money looking for a ‘home’ in property.
- 2.31 There is not a long established property investment market for these type of incubator schemes - as there is for shopping centre, offices and business parks. The market tends to be formed by investors looking for a good yield or owner managers of centres who, from their own experience, can see a return over and above the costs of borrowing.
- 2.32 We have applied an up-dated yield of 8.0% on the net income which allows a purchaser to enjoy an increased yield should he succeed in letting the units which are currently vacant.
- 2.33 We have allowed the usual costs of 5.75% to reflect the cost of purchase by a fund or individual and we have used an overall multiplier of four years’ purchase to reflect the net value of the income from telecommunications.

Project costs

- 2.34 Table 2-2 presents the various components that make up total project costs.

Table 2-2: Gosport Business Centre project costs		
Item	Appraisal 08.07.03	Estimated December 2006/07
Total build cost	3,080,884	3,082,229
Professional fees	354,523	334,823
Marketing	60,000	41,471
Finance/legal/land	725,000	723,103
Environmental costs	15,000	6,280
Total project cost	4,235,407	4,187,907

- 2.35 In examining the cost side of the appraisal, we group our comments under the headings of build costs, professional fees, marketing costs and finance, legal, land and environmental costs.

Build costs

- 2.36 Total build costs are now estimated at £3,082,229, close to the figure of £3,080,884 in the 03 Appraisal. We understand the scheme was tendered and let out on a JCT Design Contract.

The contract sum was known at the time of the 03 Appraisal and clearly the project management of the scheme and the design build approach has helped to:

- keep costs close to budget figures, and
- meet the target times in the construction programme; we understand that the scheme was completed on programme.

2.37 Within the total build cost figure, the contract sum of £2,869,000 (shown at Annex C), which contains an element of additional build, represents a cost of around £80 per sq ft for the scheme's gross area of 35,000 sq ft. We believe this is fair value and the price is comparable to other schemes that we have encountered. For example, while working on another project, we have discussed costs with St Modwen Properties Limited who have recently taken an interest in developing and managing small business centres; they report that they are estimating construction costs of between £90 and £100 per sq ft for centres developed to a basic office specification. Spons Architects and Builders Price Book does not give an exact comparison for a building such as Gosport but quotes a current price of between £79 and £105 per sq ft for "ancillary office accommodation attached to factories".

Professional fees

2.38 Professional fees at £334,823 are within the 03 Appraisal figure; £78,500 of fees have been attributed to the building contract, making a fee total (excluding early items referred in PIS 2) of £412,823 or 13.4% of the total build cost. The fees include a fee of 6% for Basepoint which entails "property development services" in addition to normal project management services for procurement and is broadly in line with a framework agreement agreed between Basepoint and SEEDA which we understand was tendered.

2.39 We have discussed the management of the professional team with Basepoint and the level of fees paid to the various professionals. We were not present during the procurement period but the scheme appears to have been brought home satisfactorily on time and within budget and the discussions gave us the impression that the professional team had performed well. The fees for the professional team appear to be in line with market rates. In terms of the management structure for the procurement of the building, we understand from Basepoint that the scheme was initially reviewed for SEEDA by the Allen Dadswell Partnership (construction project managers and quantity surveyors). As matters progressed and Basepoint assumed the development and project management of the project on behalf of SEEDA, Basepoint, in line with normal practice, oversaw a professional team of the appropriate disciplines including an architect, engineers, landscape, roofing and fire consultants as well as Allen Dadswell. Again in line with normal practice, we understand there was novation of key members of the team to the building contractor.

Recommendations

2.40 *The physical procurement of the scheme appears to have gone well and from our discussions we have no particular recommendations to make.*

Marketing costs

- 2.41 Marketing costs are below the figures in the 03 Appraisal, but do not contain further sums which are available on a revenue basis. We have discussed the marketing with Basepoint who report that the majority of enquiries stem from potential customers driving along the nearby busy road or from the networking activities of the centre manager; these activities are then supplemented by an element of local advertising. In addition, the centre manager keeps specific space requirements under review and recommends any further works, such as sub division, which can assist lettings.
- 2.42 We agree with Basepoint's approach and our experience is that there is limited mileage in expensive advertising for a scheme of the type; the majority of occupiers are normally from close by areas and the main source of enquiries is often the networking activity of the letting staff. We would not wish to second-guess Basepoint on a local issue, but given the level of voids one or two further local marketing initiatives could be considered.

Recommendations

- 2.43 *Basepoint's approach appears sensible, but given the level of voids they may wish to consider one or two further local advertising initiatives and monitor the results.*

Finance, legal, land and environmental costs

- 2.44 The main costs under this head concern the land which remains at £700,000 in both appraisals. Other costs are within the 03 Appraisal figures.

3: Company survey

Introduction

- 3.1 To understand in more detail what the important and most influential factors have been in the success of the Centre and where there may be opportunities to improve, we have undertaken a postal survey of tenants occupying premises at the Centre and the results are presented in this chapter.
- 3.2 The survey was designed to explore a range of issues, including the following:
- the types of businesses which are located at the Centre
 - the generation of employment through increasing business size
 - satisfaction with the property and services on offer, and areas for improvement
 - the importance of key factors in company operation and development, and
 - the impact of an alternative location on the business.
- 3.3 The manager at Gosport Business Centre distributed paper versions of the survey to all tenants on the premises which were then returned to SQW within three weeks. A reminder was sent out to all tenants some ten days after the first approach. Of the 49 tenants, 19 responded, yielding a 39% response rate.

Analysis of the results

Business profile

- 3.4 Looking at the business profile of the respondents in conjunction with the Centre company history database, most of the tenants are either in light manufacturing and construction, financial intermediation, consultancy or the voluntary sector. In addition, there are some small retail or supporting service companies (for example, a hairdressers and beauty salon). At least five of the respondents were start-up companies when they moved to the Centre, while the remainder had occupied premises at the Centre for any time between three and 30 months.
- 3.5 Focusing specifically on the survey respondents, the companies were categorised according to the following table:

Table 3-1: Industrial sector of company respondents (16 respondents)

Sector	No. of respondents
Manufacturing	3
Wholesale and retail trade	1
Construction	2
Transport, storage and communication	0
Real estate, renting and business	0
Financial intermediation	3
Public administration and defence	1
Hotels and Restaurants	0
Voluntary sector	3
Other (incl. 4 service providers, 1 business support, and 1 internal audit)	6
Total	19

Source: SQW Company Survey 2006

- 3.6 All respondents were micro businesses, employing between one and ten staff. Since starting or relocating their business to the Centre, seven companies had taken on more part-time or full-time staff. Four of these companies had doubled or more than doubled their employee numbers, and coincidentally have all been occupying accommodation at the Centre for less than a year and a half.
- 3.7 Tenants were generally very satisfied with the provision offered by the Centre, particularly the quality of finish, electricity and telecommunications. The only areas where more than one respondent commented on some dissatisfaction were regarding the location (not specified why) and the heating. None of the respondents were very dissatisfied with any of the parts of their premises at the Centre.

Table 3-2: Satisfaction with the service provision at the Centre (16 respondents)

	Very satisfied		Satisfied		Neither satisfied nor dissatisfied		Dissatisfied		Very dissatisfied		Total No
	No.	%	No.	%	No.	%	No.	%	No.	%	
The location	9	47%	5	26%	3	16%	2	11%	0	0%	19
Quality of finish	11	58%	8	42%	0	0%	0	0%	0	0%	19
Heating	8	42%	8	42%	1	5%	2	11%	0	0%	19
Electricity	11	58%	7	37%	1	5%	0	0%	0	0%	19
Telecoms	8	42%	9	47%	2	11%	0	0%	0	0%	19
Rental and service charges	4	21%	11	58%	3	16%	1	5%	0	0%	19
Communal kitchens	7	37%	7	37%	4	21%	1	5%	0	0%	19
Communal sitting rooms	11	58%	4	21%	4	21%	0	0%	0	0%	19
Expansion potential	7	37%	6	32%	6	32%	1	5%	0	0%	19
Proximity to other tenants	8	42%	8	42%	3	16%	0	0%	0	0%	19
Other ¹	3	16%	0	0%	0	0%	0	0%	0	0%	2

Source: SQW Company Survey 2006

- 3.8 When questioned about the services offered at the Centre and whether they were sufficient for their present needs, all tenants responding said that they were indeed sufficient. In terms of possible improvements to these services that may help the operation of their business, two respondents mentioned that out-of-hours access (eg to the board room, vending machine and seating rooms) would be useful, as would an additional small meeting room and conference phone, and standby generators to ensure adequate supply. The proposed rise in service charges was also mentioned as a potential issue.
- 3.9 Specifically, regarding car parking arrangements, most tenants were satisfied with the current provision for both employees and visitors. Two tenants suggested that the car park may be near full capacity because the Centre is not yet fully occupied and one further respondent stated that a number of other larger vehicles currently block spaces which can be problematic.
- 3.10 The flexible lease terms and the pleasant working environment were the most important offerings of the Centre to the tenants. All inclusive charges, on site management, the service package, and the availability of small units were also of some importance for the tenants. Of less importance was the ability to co-locate with like-minded businesses.

¹ Other included 'the Centre staff', the 'overall appearance, condition and maintenance of the Centre' and 'helpfulness in getting into centre, general advice'.

Table 3-3: Importance of provision at the Centre for the tenants (16 respondents)

	Very important		Some importance		Neither		Little importance		Not important at all		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
Flexible terms	13	68%	5	26%	1	5%	0	0%	0	0%	19
All inclusive charges	10	53%	9	47%	0	0%	0	0%	0	0%	19
On site management	6	32%	10	53%	3	16%	0	0%	0	0%	19
Pleasant working environment	13	68%	6	32%	0	0%	0	0%	0	0%	19
Co-locating with like-minded business	2	11%	6	32%	7	37%	1	5%	3	16%	19
Quality of buildings/site	10	53%	7	37%	2	11%	0	0%	0	0%	19
Availability of small units	9	47%	8	42%	2	11%	0	0%	0	0%	19
Service package	6	32%	11	58%	2	11%	0	0%	0	0%	19
Other ²	1	5%	0	0%	0	0%	0	0%	0	0%	0

Source: SQW Company Survey 2006

- 3.11 When asked about alternative premises, current occupiers considered in their move to Gosport Business Centre, or would have done so had premises at this Centre not been available, all responding would have remained in the South East Hampshire area. Two companies suggested Portsmouth or Fareham, and another Southampton, but traffic congestion would have been a problem. Two further respondents suggested they considered the other Basepoint sites at Broadmarsh and Havant, of which the former was considered not to have sufficient car parking, and the latter would have had no impact on the business. One further tenant suggested that they would have probably bought a work unit on the premises next door, on the small industrial unit site. Overall tenants preferred Gosport because of the opportunity to occupy small, modern and attractive units with flexible leases, which were more conveniently located for staff.
- 3.12 Other positive comments businesses made in relation to the Centre was the high level of maintenance which portrays an excellent image to business clients and the helpful management relating to all matters. More negative was the proposed change in electricity service charges adding significantly to license fees and has prompted one company to look for alternative permanent premises. Another suggested that the smoking area located outside the reception does not give a good perception to potential clients or visitors. However, overall tenants appeared happy with their premises and the service provision offered at the Centre.

² Other included 'larger units if required in the future'

4: The Centre's contribution to the Gosport economy and the wider property context

4.1 In order to understand the Centre's wider contribution for the Gosport economy, we undertook a programme of consultations with representatives of economic development intermediaries including:

- Gosport Borough Council
- The Harbour Forum
- Solent Enterprise Hub
- South East Hampshire Enterprise Agency.

Awareness of the Centre

4.2 There is widespread awareness of the Centre amongst all economic development intermediaries. We were told that the Centre manager is in regular and close contact with a wide range of business support and economic development bodies and is participating regularly in networking meetings. Also, the Centre is being regularly offered as a venue for a wide range of events which helps in the promotion of the Centre's property and services offer.

4.3 Being connected widely and well means that intermediaries do pass on enquiries on part of potential small business tenants to the Centre which tends to be the most effective type of promotion and marketing for initiatives of this nature.

Views on the provision of premises

4.4 There is general consensus that the standard of premises is high ("the Basepoint standard"). The location of the Centre, the standard of the common areas and the individual units are all considered to offer a high quality product. Visibility of the Centre from the main road was also commented on favourably, both from the point of view of the tenants (where it was considered as being helpful for marketing and promotion) as well as from the point of view of the Centre itself where visibility was also seen to contribute to the marketing of the Centre and to help to make a statement on Gosport's ambitions.

4.5 There were somewhat conflicting views as to whether the Centre's standard was higher than it needed to be (and therefore more expensive). Some opinions were expressed saying that a cheaper, less specified Centre would probably have filled up more quickly and that there continued to be a gap in the provision of cheaper units. According to this school of thought, Gosport Business Centre was not appropriate for young start-up businesses moving into their first business premises but was more targeted at companies with a successful trading history who wanted to grow and develop.

- 4.6 Others argued that there was need for a “ladder of accommodation” and Gosport Business Centre was a “step up” from cheaper business premises such as, for instance, the Sanderson Centre. These consultees argued that Gosport needed both, a “cheap and cheerful” product for businesses with very low margins as well as a better quality scheme for higher value added businesses with ambitions to grow and that Gosport Business Centre offered the better quality option.
- 4.7 Yet another view was that the Centre had been viewed as expensive in its early days – and had been compared with the cheap offer at other developments, in particular the Sanderson Centre; however, over time, Gosport Business Centre had become more established in the market and the quality it offered had been seen as being worth the higher rent by potential tenants.
- 4.8 One other set of comments related to the fact that the Centre had attracted a somewhat peculiar mix of businesses, including a nail bar and a voluntary organisation. While some consultees felt this collection of businesses added to the overall interest of the Centre, others thought that it might deter quality businesses to locate to the Centre and that it might be one reason why the office space had taken longer to fill up than the workshop units. In our opinion, a number of these quasi retail uses can add to the attractiveness of the Centre by providing services to tenants as well as increasing footfall. However, we would wish the number to be limited and not increase it beyond what the Centre has already attracted.

Views on the provision of services

- 4.9 While none of the consultees felt in a position to provide detailed feed-back, the general consensus was that the Centre’s service provision was of high quality. In particular, the Centre was maintained at a very high standard and always looked clean and tidy, in particular in the common areas.

Has the Centre helped start-up businesses?

- 4.10 Reflecting the difference in views as to whether the Centre’s property offer was appropriate for the needs of Gosport, there were also variations in the assessment as to whether the Centre had helped start-up businesses. Some argued that, given the relatively high level of rentals, the Centre did not offer space appropriate for the needs of small and young companies and was more appropriate for mature businesses.
- 4.11 Others argued that there was clear evidence that the Centre had supported start-up businesses (for example in the case of Flight Data Services) and intermediaries were often referring start-up businesses to the Centre. The flexible license arrangements were seen to offer excellent conditions for young businesses because they did not have to commit themselves to a long lease in a situation where their future was still uncertain.

Has the Centre helped established small and medium sized businesses

- 4.12 There was agreement that the Centre offered an excellent environment for established small and medium-sized businesses from Gosport and its wider environment. For these companies – as well as for the younger start-up businesses – the flexibility of a license fee was seen as an excellent mechanism to help with business performance.

Additionality – would the Centre have happened without public sector support

- 4.13 There was widespread consensus that the nature of the business environment in Gosport meant that without public sector support, the Gosport Business Centre would not have been developed. Gosport's traditional role as a location for Ministry of Defence activities had meant that business premises were in short supply and the lack of quality businesses meant that there had been little incentive for private sector developers to build speculative units.

Where do businesses graduate to

- 4.14 Given that the Centre had not been in operation for very long, it was still seen to be early days to say too much as to where businesses were graduating to. There was mention of the units behind Gosport Business Centre which would provide expansion space for some businesses. Some consultees wondered whether companies reaching a certain size would prefer to move out of Gosport altogether, to be closer to centres of activity including Fareham and Southampton.

Has the Centre started to change the perception of Gosport

- 4.15 Opinions on this issue were divided. Some thought it was asking too much for a Centre of this nature and of such short duration to contribute to changing the perception of Gosport as a business location. Others felt strongly that given its quality, visibility and success in attracting both start-up and established businesses, the Centre has indeed started to change the perception of Gosport as a business location. These consultees argued that it was only through small steps that this perception would eventually change.

Data analysis

- 4.16 We were given data by on the total number of companies that had occupied Gosport Business Centre since 2004. Of those 80 companies:
- 29 had been start-ups and 51 had been established businesses
 - 43 had come from Gosport, nine from Fareham, five from Portsmouth, five from Southampton and the rest from a mixture of locations, some close to Gosport such as Lee-on-Solent and Portchester, and some as far afield as Eastleigh and Manchester
 - The majority of companies had moved in 2005 (42); 18 had moved arrived in 2004 and 20 in 2006

- On average, companies have been staying in the Centre for just under 13 months
- Of the 80 companies, 36 have moved out of the Centre; two of those left in 2004, 19 in 2005 and 15 in 2006
- Established companies have been staying for just over 13 months
- Start-up businesses have been staying for just under seven months
- Companies employ an average of three people.

Achievement against targets

4.17 The Stage 2 Appraisal submission for Gosport Business Centre specified the following outputs (all over a three year period):

- jobs created: 106
- new businesses created or attracted to the region that begin trading : 45
- new businesses created or attracted to the region sustained for 12 months : 36
- businesses located in/using the facilities of the incubator units funded by SEEDA: 135
- businesses leaving these facilities and moving into alternative premises or second phase facilities: 54

4.18 Gosport Business Centre does not systematically collect data that would allow to check back on whether output targets have been met. On the basis of the database of previous and current tenants at the Centre, the following can be concluded:

- current and previous **start-up** tenants are employing at total of **60** people; some of these jobs would have been captured elsewhere in Gosport (alternative premises and home-working) and it is very difficult to unpack the Centre's contribution to this total; however, given the feed-back we have obtained from wider intermediaries and tenants, we are confident that the Centre did play a role in securing a significant proportion of these jobs; we estimate that about half of the 60 jobs (**30**) can be counted towards target achievement
- established companies (current and previous tenants) are associated with a total of **115** employees; in the absence of firm evidence on how many of these jobs can be directly attributed to the Centre's support, we estimate that about one third of these jobs can be counted towards target achievement, giving us some **35** additional jobs to be counted towards output achievement
- this would make for a total about **65** jobs associated with the Centre over a **two** year period. Keeping in mind that the Centre is only 70% occupied at present and there is one further year to go in the three year period, we consider the Centre to be well on track to achieve the job targets.

Competing property

4.19 We were given site of a report by Vail Williams prepared on behalf of Basepoint and SEEDA.³ The report looked at an area along the south coast from Havant (including Waterlooville) to Southampton and identified over 20 small business unit schemes in this area, potentially more if all small office suites were taken into account. However, not all of them were considered to be in direct competition with the then proposed Gosport scheme because they varied in character and the nature of their market offering.

4.20 The distribution of schemes was summarised by Vail Williams as follows:

- A concentration of centres at each end of the M27, especially in Portsmouth and Southampton
- An evident gap between the two
- Chilworth Science Park, Southampton and Haslar Marine Technology Park, Gosport with a specialised offer
- Fareham Enterprise Centre dominating the northern end of Gosport but at the time largely let
- Gosport was otherwise seen to be short of business accommodation, especially of a modern standard.

4.21 As part of our review, we updated information on competing property and our findings are summarised in Table 4-1 below.

Table 4-1: Competing schemes

	Total Space	Rental rates	Fully inclusive rent	Occupancy rate
<u>Basepoint Centres</u>	sq ft	per 100sq ft per wk exclude VAT		%
Gosport	25,508		Including business rates, some services excluding electricity/phone/broadband	78%
Office (no airconditioning)		£50.85		
Office (with airconditioning)		n/a		
Office (mezzanine)		£41.67		
Light industrial		£38.46		
Southampton	32,595		Incl. business rates, service charges, maintenance, gas and water. Excl electric/phone/broadband	93%
Office (no airconditioning)		~£55-60		






³ Gosport Enterprise Centre : Research prepared on behalf of Basepoint plc and SEEDA by Vail Williams Research. Contact : Simon Ward






	Total Space	Rental rates	Fully inclusive rent	Occupancy rate
Light industrial		~£35-40		
Havant (Broadmarsh)	24,975	-	Including business rates, some services excluding electric/phone/broadband	100%
Office (no airconditioning)		£43.95		
Office (with airconditioning)		£47.30		
Light industrial		~£35.00		
Waterlooville (Brambles)	?		Including business rates, some services excluding electric and gas	?%
Office		£53.30		
<u>Portsmouth Business Centres - Council - owned</u>				
Challenge Centre			Includes business rates, rent and water, not electricity and telephones	100%
Office (370 sq ft)		£28.90		
Light industrial (370 sq ft)		£28.90		
Enterprise Centre				100%
Industrial (359 sq ft)		£32.80		
Industrial (1138 sq ft)		£28.04		
Victory Centre			Includes business rates, rent and water, not electricity and telephones	76%
Office (356 sq ft)		~£29.28		
Light industrial (800 sq ft)		~£20.00		
<u>The Sanderson Centre</u>				
Office (1800 sq ft)		~£10.58		
Office (238 sq ft)		~£10.50		
<u>Eastleigh Business Centre</u>				
			An all inclusive monthly charge, VAT exempt, covers rent & rates, heating, electricity, maintenance & repairs and building insurance	
Office (306 sq ft)		~£53.68		


4.22 One of the most interesting points to make concerns occupancy levels where there is quite significant variation and the Gosport Centre is at the lower end of the occupancy spectrum.

4.23 Table 4-2 below summarises Gosport Business Centre’s own review of how it compares with other centres in the sub-region.

Table 4-2: Business Centres in the local area: how does Gosport Business Centre compare?

					
Terms	14 days notice to leave.	One months notice to leave.	One months notice to leave.	One months notice to leave	
Deposit	5 weeks rent	Two months rent	One months rent	Two months rent	
Rents	All inclusive	All inclusive	All inclusive	All Inclusive	
Access	24/7	24/7	24/7	24/7	24/7
Example Office Rental	210 sq ft £125 pw	£400 per desk per month		£420 per desk per month	238 sq ft £100 pm
Virtual Office Agreement	£60:00 Per month	£150:00 Per month	£109.25 Per month	£115:00 Per month	
Mail Handling for virtual offices	Forwarded at cost	£35:00 per month plus postage costs.		Postage plus 20% admin charge	
Fax Service	30p per page outgoing/incoming	£10:00 per month	From 25p per page outgoing. 10p per page incoming.	No charge for incoming	From 80p per page outgoing. 35p per page incoming
Photocopying	10p per copy (1-100) 8p per copy (101 – 300) 6p per copy (over 300)		10p per copy 1-999 copies	10p per copy 1-500 copies	7p per sheet 1-250 copies
Internet	2Mb Broadband £15 - £60 per month			512K connection £74.70 per desk per month	

					
Telephone Charges	From £13:50 per 4 weeks		£11.50 per month	£99 one off set up fee	Standard BT charges
Telephone Handsets	Included in rental		£15:00 per handset per month.	£74.70 per handset per month	Self Supply
Analogue line for FAX services	£13.50 per month			£30 per month plus £50 set up fee	
Call Charges	From 6p per minute		Standard BT charges	Standard BT charges	Standard BT charges
Voicemail	Included	£25:00 per month		Included	
Answering Service	From £35:00 per month by external service provider	£120:00 per month		Included	Not Available
Call Forwarding	No charge apart from call charge	£115:00 per month plus call charges.		Included	
Car Parking	Free, allocation per unit	Free, allocation per desk	Free	Free, allocated	Free
Security	CCTV and overnight patrols	CCTV	CCTV	CCTV	
Meeting Room Hire For Tenants	£10:00 per hour	From £15:80 Per hour	From £37:05 Per person per day	£9 per person per hour or £39 for full day	Not Available
Meeting Room Hire for Non	£15:00	From £30:00	From £15:00		Not Available

					
Tenants	per hour	Per hour	Per hour		
Coffee	£5:00 per Jug with biscuits		£5:00 Per Jug	Included	Not Available
Handyman	Free on request for low level maintenance			£25 per hour	

5: Summary, conclusions and recommendations

- 5.1 Tenants at Gosport Business Centre were generally very satisfied with the provision offered by the Centre, particularly the quality of the finish and access to electricity and telecommunications. The only areas where more than one respondent commented on some dissatisfaction were regarding the location (not specified why) and the heating. None of the respondents were dissatisfied with any of the parts of their premises at the Centre.
- 5.2 When questioned about the services offered at the Centre and whether they were sufficient for their present needs, all tenants said that they were indeed sufficient. In terms of possible improvements, out of office access (eg to the board room, vending machine and seating rooms) would be useful as would be an additional small meeting room and conference phone and small generators to ensure adequate supply. The proposed rise in the service charge was also mentioned as a potential issue.
- 5.3 Regarding car parking arrangements, most tenants were satisfied with the current provision for both employees and visitors. Two tenants suggested that the car park may be near full capacity because the Centre is not yet fully occupied and one further respondent stated that a number of other larger vehicles are currently blocking spaces which can be problematic.
- 5.4 The flexible lease terms and the pleasant working environment were the most important offerings of the Centre to its tenants. All-inclusive charges, on site management, the service package and the availability of small units were also of importance to clients..
- 5.5 Other positive comments businesses made in relation to the Centre was the high level of maintenance which portrays an excellent image to business clients and the helpful management relating to all matters. More negative was the proposed change in electricity service charges adding significantly to license fees, prompting one company to look for alternative permanent premises.

Financial centre performance

- 5.6 We encountered some difficulties in identifying the “master appraisal” which would appear to be the appropriate benchmark to record performance. In consequence, there was a fall in the estimated value of £515,504 between different appraisals, increasing the gap in the development value accordingly.
- 5.7 Gross income of £582,868, assuming all units are income producing, is slightly below the forecast figure of £608,860. Estimated voids, which were taken as being 15% are running at around 23%. We understand from the discussions with Basepoint that the workshops have let well as have the smaller units but that there has been a resistance to larger units; some work on sub division has been carried out and the position will be kept under review.
- 5.8 We would not be critical of performance at this stage. It is always difficult to estimate the exact size of units in untried schemes such as Gosport and there appears to be a reasonable chance that the occupancy could reach the target 85% in due course,

- 5.9 There appears to have been an underestimate of Centre running costs and management-related costs. We have discussed this with Basepoint and agree that some elements of the difference can be attributed to gas and electricity prices and other small items. However, the main reason for the increase in costs in the 2005 appraisal appears to be an under-provision for running costs and an assumption perhaps that these could accommodate Basepoint's management fee; in practice, the cost of the management fee has been offset by a reduction in the surplus income fee.
- 5.10 In terms of the management fee, we have reservations about the terms that have been negotiated. While the amount of fee Basepoint can expect to earn in 2006/07 does not appear unreasonable, we would prefer the management fee to be a fixed fee rather than one based on a percentage of running costs. Moreover, for future arrangements we would recommend a limited length of term (about five or six years) rather than the 15 years in this case.
- 5.11 The physical procurement of the scheme appears to have gone well and from our discussions we have no particular recommendations to make.
- 5.12 Costs for building and professional fees have been in line with estimates. Marketing costs are below the figures in the original appraisal. While we consider Basepoint's approach to marketing sensible, given the level of voids some local marketing initiatives may be worth considering.

The wider impact on Gosport

- 5.13 There was a high level of awareness of the Centre amongst economic development intermediaries and both the standard of premises and services was considered favourably and we share this view.
- 5.14 There was some debate as to whether premises were actually too expensive for Gosport's needs and whether the relatively low level of occupancy reflected the high license fees. On the one hand, there was felt to be a gap in the market for high quality premises; on the other hand, it was argued that cheaper space was snatched up quickly and the demand was still not satisfied. Our view is that it is good to have a 'ladder of accommodation' in every location and in Gosport's case, this needs to include a high quality product as well as lower level provision.
- 5.15 The mixture of tenants (workshops, offices and "walk in") was considered by some as being interesting while others felt it was not serving either group well and a more focused approach would be more appropriate. Our view is that the balance between offices, workshops and retail-style units is about right. If anything, it might have been advantageous to subdivide the larger office units where take-up has not been very quick into smaller units.
- 5.16 In terms of additionality, it was felt that a product of the quality of Gosport Business Centre would not have happened without public sector intervention and some felt that, due to its high visibility and high standard, it had started to make a noticeable impact on Gosport as a business location. We endorse this view.

Annex A: The brief and SQW's response

COMMERCIALLY SENSITIVE

Annex B: List of consultees

Table B-1 : Consultees

Name	Organisation
Nick Smith	Basepoint plc
Phil Stansfield	Basepoint plc
Liza Smith	Harbour Economic Forum
Lynda Dine (Economic Development Officer)	Gosport Borough Council
Arthur Monk	Solent Enterprise Hub
Tim Austin	South East Hants Enterprise Agency

Annex C: Development appraisal

Draft 1.12.06

ANNEX C/1

GOSPORT

TABLE

Comparison between appraisal 20.05.03 and estimated position at December 2006 taken from Basepoint accounting information at end of month 6.

Item	Appraisal 20.05.03	Estimated Dec 2006
DEVELOPMENT VALUE		
Gross income	608,860	582,868
Less comm.. rates	109,595	85,268
Net income after rates	499,265	497,600
Less voids 15%	74,890	23% 114,448
Net inc. after void	424,375	383,152
Centre run costs	130,000	151,064
Net inc. after sc.	294,375	232,088
Management fee	----	60,526
Surp. Inc. fee	58,803	4,668
Net income	235,573	166,894
Yield 11%	2,141,570	8.% 2,086,175
Telecoms: net income 16,926 say 4x = value	-----	67,704
Total	2,141,570	2,153,879
Less fund cost 5.75%	116,445	123,848
Net dev. value	2,025,125	2,030,031

PROJECT COSTS

1. BUILDING COSTS

Contract sum	2,792,884	2,869,000
Additional build	55,000	---
Landscaping	---	---
Cabling	50,000	47,934
Telecom	60,000	70,645
Management suite etc.	40,000	52,475
Security	25,000	32,745
Site survey	8,000	9,420
Contingency	50,000	---
Total build cost	3,080,884	3,082,229

ANNEX C/2

2. PROFESSIONAL FEES

Architect (56,000 in contract)	41,750	44,083
Landscape	3,000	3,600
QS	38,000	38,750
ST Engineer (22,500 in contract)	25,000	25,000
Service engineer	18,500	18,400
Planning super.	4,000	3,000
Roofing consult.	2,000	3,280
Fire consult.	1,500	550
Project management	170,873	168,000
Telecom consult	12,000	12,000
Build. Surveyor	7,500	5,660
PI Insurance	10,400	10,400
Contingency	20,000	2,100
Total fees	354,523	334,823

3. MARKETING & SET UP COSTS

Advertising	20,000	10,053
Start-up	20,000	18,884
Signage etc.	10,000	2,215
Miscellaneous	10,000	10,358
Total marketing	60,000	41,471

4. FINANCE, VALUATION, LEGAL & LAND

[Land cost	700,000]	700,000
Solicitor	25,000	23,103
Total finance etc.	725,000	723,103

5. ENVIRONMENTAL COSTS

Environ. enhancement	10,000	2,980
BREEAM	5,000	3,300
Total Env costs	15,000	6,280

TOTAL PROJECT COST 1-5	4,235,407	4,187,907
NET DEV. VALUE	2,025,125	2,030,031
GAP	2,210,282	2,157,876