Development Economics Workshop

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North Lanarkshire Council

service and people first

Content

- Rationale for Public Sector Intervention
- Why does property development require public sector support
- Enabling Development - opportunities, barriers and constraints
- Case Studies – new financial engineering models

Rationale for Public Sector Intervention

- Economic Development (Non Statutory Function)
- Supply of land and buildings (including housing) is fundamental to economic competitiveness
- Ultimately development creates jobs and investment
- Development supports range of employment as well as direct construction jobs.
- Developers are a business and have requirement to make a profit which should be a reflection of risk
- ……..it doesn't always work !

Why Support Development

- Market Failure
  - Abnormalities & Financial Viability
  - Market Certainty & Risk Aversion
  - Access to Loan Finance

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Levels of Public Sector Support

Project Advocacy

Development Brief

Action

Running CPO

Funding

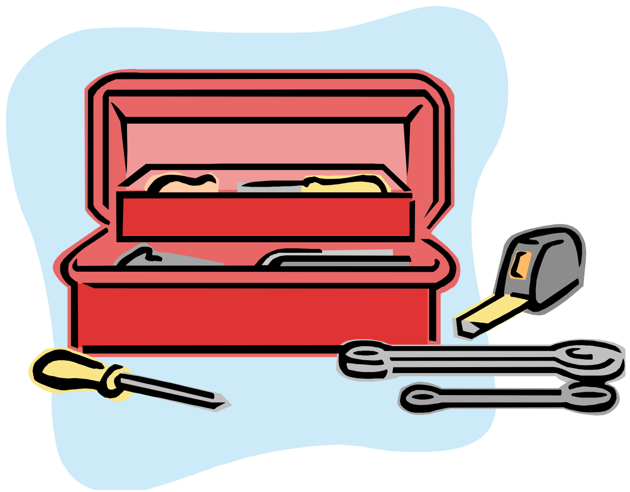
If have any
or deferred receipt

Public Sector Funding Toolkit

- Grants
- Joint Ventures
- Development Finance & Loans
- Council Guarantees

But be careful with …

- Procurement Regulations
- State Aid
  - Use Approved Schemes



Scottish Property Support Scheme

- Can be used by SE, HIE and Scottish local authorities
- S20 Local Government in Scotland Act 2003 (power to advance well-being)
- To support development of premises for commercial purposes by the private sector
- Aimed at property developers but can be given to other companies for bespoke property developments.
- To be used where cost of development exceeds end market value or level of risk prevents development

SPSS - Further Information

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- Aid form: grants, subsidised loans, development financing or development services
- Aid max: minimum needed for the project to proceed within aid intensity limit (Assisted Area Status)
- Initial investment must be maintained for 5 years
- Eligible costs - land purchase, construction costs, infrastructure and services; finance charges, professional fees
- Independent appraisal of market value and estimated costs

Support for Land Remediation

- Complements and can be used in conjunction with Property Support Scheme.
- Allows local authorities to support remediation of privately owned land for <u>any use</u>
- Infrastructure expenditure is excluded
- Contaminated, brownfield or derelict land potentially eligible
- Grant of up to 100% of all costs of remediation work, <u>minus increase in value of land</u>
- <u>BUT</u> where polluter is known, they must pay

CASE STUDIES

Case Study 1 - JESSICA

- £50m Urban Regeneration Loan Fund, utilising ERDF expenditure by 2015
- 13 eligible LA areas (but oversubscribed)
- Private Sector Fund Manager (Amber Infrastructure)
- Can provide equity, loans or guarantees
- ERDF Eligible activity :
  – Development & Refurbishment of office space for SMEs
  – Adaptation of industrial sites and business facilities
  – Decontamination & servicing of brownfield land
- But end user restrictions (SME's)

North Lanarkshire Industrial Portfolio

North Lanarkshire Council

Key Development Principles

- Small industrial market supports SME's and plays to Lanarkshire's strengths.
- Development opportunities to be sited in established industrial locations and be on brownfield sites to maximise grant funding
- Focus on small units - maximum of 10,000 sq ft where evidence of market demand
- Development to be undertaken in partnership with private sector
- Development of project pipeline and portfolio to offer greater investment opportunities
- **Build it – Let it – Sell It – Move On**

Dundyvan LLP

North Lanarkshire Council

- 50:50 Joint Venture between CBC and Fusion Assets
- Set up to develop 40,000 sq ft small industrial space on 3 acre brownfield site in Coatbridge.
- £140k on grouting works via Land Remediation Scheme
- Overall Development Cost £3.3m
- Investment sale based on £6.25 / sq ft rent and 8% yield.
- Appraisal based on 65% debt finance (via JESSICA) and 35% equity finance (via CBC & Fusion Assets)
- SPV, so requires parent company guarantee to access cheaper loan finance

CBC

Fusion assets

Dundyvan Industrial Estate

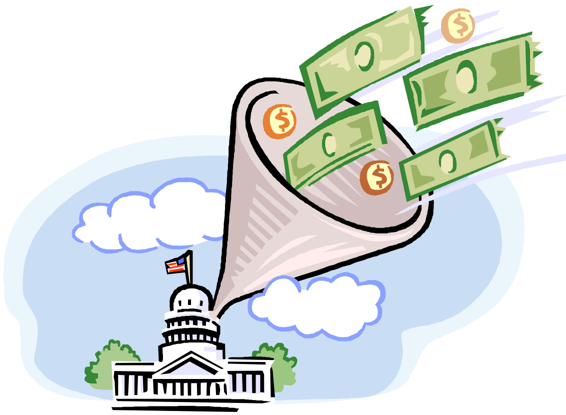
Case Study 2 – TIF

Tax Incremental Financing is a mechanism to use future gains in taxes (non-domestic rates) to finance infrastructure improvements required to enable development and unlock regeneration.

The future incremental revenue stream (non-domestic rates) is then used to repay the debt incurred in funding the initial enabling work

TIF Background

- First introduced in California in 1950's
- Funded through municipal bond issues to institutional investors <u>or</u> developer finance
- In US TIF Bond issues have tax exempt status which reduces the cost of capital
- Background Information – British Property Federation, RICS/Aberdeen University



TIF's in Scotland

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- First appeared in 2005 – application limited by requirement for primary legislation
- Now promoted through SFT
- Key Differences
  - –Based on prudential borrowing
  - –Introduction of displacement
  - –No tax breaks

TIF Pilot Projects in Scotland

Approved Pilot Projects

- *Edinburgh Waterfront*
- *Ravenscraig*

Business Case Submitted

- *Buchanan Galleries*, Glasgow

3 Remaining Pilots (submitted 19th Aug 2011 to SFT)

- *Non Retail Led*
- *One Project below £20m*
- *One Project with Renewables focus*

Who is considering TIF

- *Argyle & Bute, Falkirk, Fife & Aberdeen Councils*

TIF Eligibility Criteria

- Local authority must have headroom to raise borrowing
- Enabling Infrastructure must publicly owned or controlled assets due to Prudential Borrowing rules
- Assessment as to whether the private sector could proceed acting alone – <u>What If Test</u>
- Mechanism capable of linking infrastructure investment with development (back to back legal agreements)

Summary of TIF Calculation

- Red line or “Capture Area”
- Identify and cost enabling works
- NDR calculation based on development created
- Assessment of displacement factor
- Payback Period - projected tax increment must be able to repay debt within 25 years
- Issues

  +ability of LA to retain rateable income in event of early repayment

  - unsecured borrowing costs

Ravenscraig Phase 2

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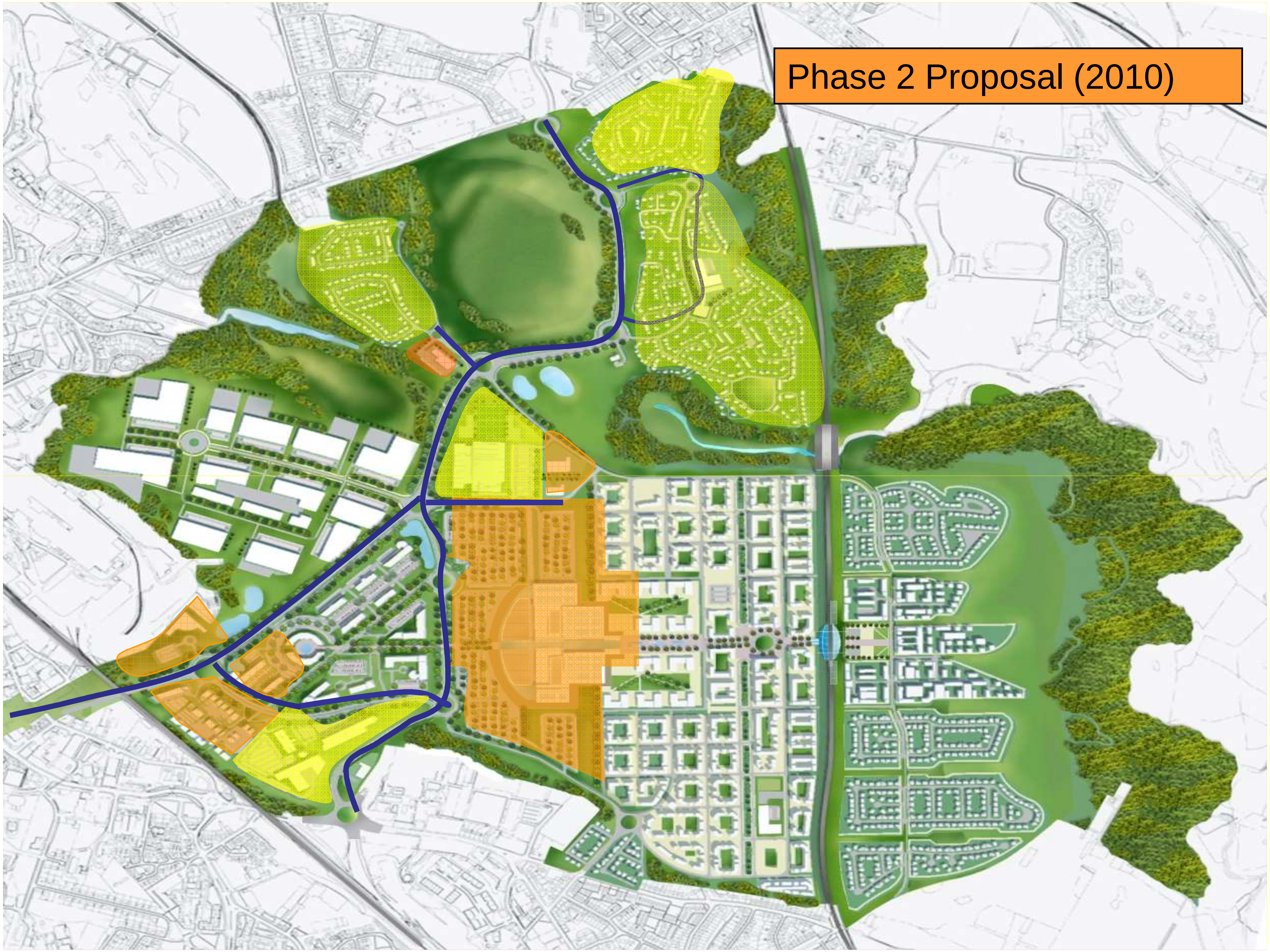
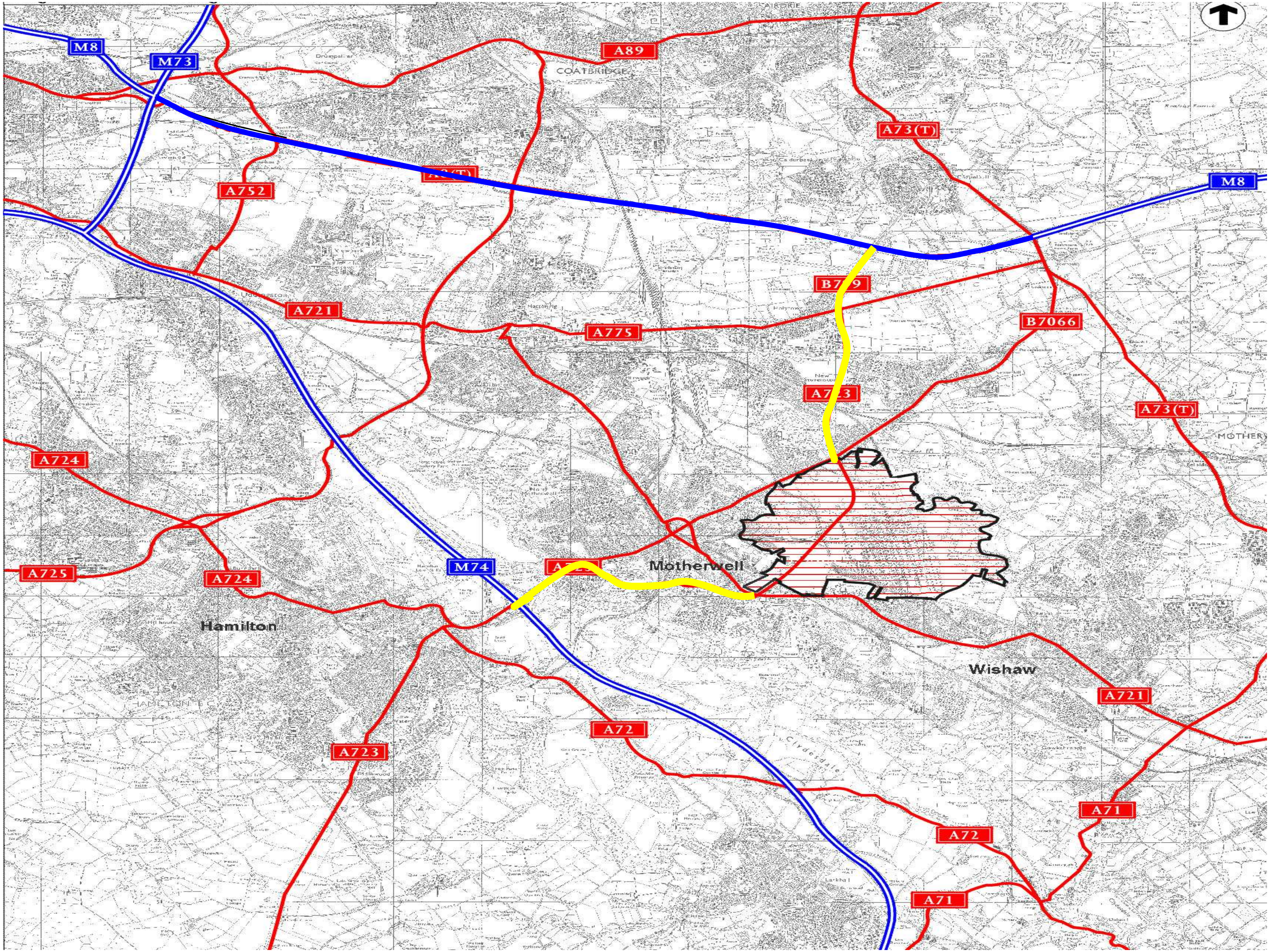
- Initiated in 2007
- Approx £40m funding gap
- Development Comprising
  - 93,000 sqm retail & leisure
  - 14,000 sqm commercial
  - 5,600 sqm hotel/care home

- Major off site roads improvements


Phase 2 Proposal (2010)



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Hamilton
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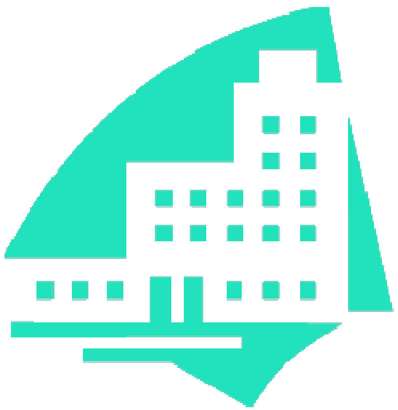
TIF Summary

- TIF offers a new alternative for funding large scale developments.
- Will TIF work anywhere?
  - Requirement for degree of market certainty in the development
  - Needs to be publicly controlled assets for prudential borrowing
  - Appetite of Council for risk and headroom to borrow



Conclusions

- There are mechanisms available to assist property development
- From outside it may appear cumbersome, bureaucratic and jargon filled… it is
- Worth persevering with - it can make a development viable or happen
- In current climate – what else is there!

Thank you for listening