The Quadrant – The Ownership, Management and Design of Property Schemes to promote Sustainable Development

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SUMMARY

This paper describes the development of the Quadrant, a business centre for new and growing small and medium sized businesses. The aim of the paper is to show how public grants may be used to promote property development schemes which use the principle of asset based regeneration to promote sustainable development involving:

- economic sustainability
- social sustainability
- environmental sustainability

The scheme contributes to the sustainability of the local economy by providing accommodation in a managing working environment for start up and growing companies. The principle of asset based regeneration concerns the way in which the rental income is used by Manor and Castle Development Trust (MCDT) to support smaller community based initiatives. MCDT is recognised as a model regeneration partnership, a not for profit company set up as a Development Trust whose remit is the social and economic regeneration of one of the most deprived areas of the region in southern Sheffield. Social initiatives promoted by MCDT include community health programmes, childcare projects, assistance for a range of voluntary groups and partnership projects with private companies to provide new homes. The income is also used by MCDT to promote training programmes which themselves may help generate the formation of new firms.

The design of the building incorporates many features to minimise energy use and to promote other environmental benefits described in Section 5.

This case study is based on the experience of the author in advising on the design and development of the project, interviews with key staff at MCDT and EEC and UK research strategy and policy documents.

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1. THE PROJECT

The project is the development of a Business Centre of some 66,000 sq ft (6,203 sq m) net lettable. The Centre provides business accommodation mainly for small and medium sized enterprises. Sheffield is within the South Yorkshire Area designated for funding from the European Economic Community under Objective 1 to promote economic development and job creation. Funding has been provided from this source, from UK government and from MCDT. The Centre acts an incubator assisting the formation and growth of new businesses by providing physical space and in-house management support for new and existing firms.

Part of the rationale for public funding of the development is that the private sector property industry is reluctant to invest in new developments in depressed local economies such as South Yorkshire. A vicious circle results whereby the lack of available premises then inhibits the prospects for the development and growth of new firms.

> "A key reason why South Yorkshire has had problems in attracting mobile investment projects, particularly in the higher growth knowledge economy sectors, is because it has lacked the quality of serviced sites and advanced premises in prime locations .... This has been due to a combination of infrastructure constraints and shortcomings of the property market." Yorkshire Forward (2001)

> The project is located on the Parkway Commerce Park, a strategic site between Sheffield Town Centre and the motorway which is also funded by EEC and UK grant assistance.

Strategic plans by bodies charged with economic regeneration of the area suggested that investment to promote job creation and growth in local economies should also benefit deprived communities

> "To secure economic benefits for local communities, there should be a range of initiatives to link SE2 employers with communities in need."
> Yorkshire Forward (2001)

> Sites to be linked to areas of deprivation. Training and employment targeted at deprived areas." Yorkshire Forward (2001)

One of the key ways in which the project is a model of innovation in social and economic development is its use of grant assistance to promote Asset Based Regeneration. This model of funding uses grant assistance to create capital assets for community based organisations who then use the revenue stream generated to fund further community projects. In this case the ownership of the centre has been passed to MCDT. The accommodation and services help the development and growth of new and existing companies and the rent generated is used by MCDT to secure the long term sustainability of its regeneration programme for the Manor and Castle area which is one of Sheffield's most deprived areas.

2. ECONOMIC SUSTAINABILITY

A shortage of new accommodation for occupation by businesses in both services and manufacturing has been recognised over the last decade as contributing to the economic difficulties of the Yorkshire and Humber region and more locally South Yorkshire and Sheffield.

Sheffield First Partnership (2000) analysed the location of new foreign investment showing that up to 1995 it had accounted for 25% of the manufacturing investment and 40% of financial services investment. It went on to show that the Yorkshire and Humberside region attracted proportionally less than the UK and other regions including the Northern Region, that South Yorkshire attracted the lowest proportion of mobile investment in the region and surprisingly that Sheffield attracted the lowest in South Yorkshire. The recommendations flowing from this analysis in "Enterprise: Stimulating New Investment and Jobs" were to:

- bring forward high quality competitive sites for business and manufacturing,
- attract investment to the city, supporting the expansion of existing investment,
- identify potential targets and promote Sheffield to businesses with mobile projects.

Price Waterhouse Cooper (1999) in "South Yorkshire: Key Economic Issues" agreed that

> "South Yorkshire's capture of external investment has been counted in both volume and range, particularly in comparison with some other UK areas suffering from major economic restructuring."

One of the recommendations was to

> "develop policies to encourage growth in the micro-business sector."

The Quadrant is located on the Parkway Commerce Park which is approximately a mile to the east of Sheffield City Centre on the main link road to junction 33 of the M1 motorway. This site received funding for infrastructure works under the European Union Objective 2 programme for Yorkshire and Humberside. The Business Plan prepared by DTZ Preda Consulting (1998) in support of the grant application for £2.75 million from the European Regional Development Fund envisaged the development on the site of 39,296 sq m (423,000 sq ft) of industrial floorspace and a 9,290 (100,000 sq ft) call centre.

MCDT was one of the partners in this initiative which also included the City Council and a private developer, J.F. Finnegan Ltd. The site now occupied by the Quadrant was initially allocated to the trust for managed workspace envisaged mainly for small manufacturing companies. Several pieces of research work suggested a change in emphasis.

In early 2000 MCDT commissioned Sheffield Hallam University (SHU) to undertake a Demand Study to inform decisions abut the target market and hence the design of space. The research reviewed sources of occupational demand, models for the provision of space and current provision of property. The report concluded that demand for small units was high and that the undersupply of space was inhibiting the development of new companies in the local economy. Small businesses in the service sector were likely to form the strongest source of demand. The review of other schemes nationally and in the area suggested that the combination of office and hi tech space along with accommodation for manufacturing companies was feasible and that the scheme should be designed to provide space in as flexible a form as possible.

The Objective 1 Programme Directorate - South Yorkshire commissioned Charles Monck and Associates to explore the position in the South Yorkshire Region and to prepare a strategy. The report was published in March 2002 and supported the findings of previous studies reported above stating

> "The results demonstrate a fundamental lack of quantity and quality of small office/industrial units across South Yorkshire."

The three objectives suggested were:

> to increase the volume and quality of industrial, office and hybrid space in the size ranges from 250 to 1,500 sq ft and from 1,500 to 5,000 sq ft.
>
> to harness the existing Science Park and Innovation Centres and provide additional facilities where necessary to increase the formation and growth of small firms.
>
> to build on the existing network of managed workspace schemes to make them more sustainable and to increase the formation and to extend provision .... as part of an integrated economic and community development programme."

The report also identified a problematic dynamic in the occupation of existing good quality space for small businesses. The shortage of accommodation meant that growing firms had very limited scope for moving. Managers of serviced accommodation did not enforce exit strategies to encourage such firms to move, clogging existing provision, partly exacerbated by tenants growing on site reducing capacity to accommodate new tenants. The report suggested that in these circumstances the provision of "grow-on" space could help make the most of capacity in existing facilities.

MCDT commissioned SHU (2002) to update the previous demand study taking account of the Charles Monck report. The Demand Study Update confirmed the findings in the work reported above and suggested that space should be provided in a flexible format for growing companies and that specialist accommodation, advice and facilities for start up business should be incorporated into the facility.

The scheme was open in June 2005 at a cost of £11.6 million with £3.2m from the South Yorkshire Single Programme through Yorkshire Forward and funding of £3.8m which MCDT raised through a bank loan. The 6,203 sq m of space is available on flexible terms and size configurations starting from as little as 23 sq m. The take up of lettings is progressing well with 41% of the space and 61% of the suites in Building 1 taken. Current enquiries suggest that the target 70% occupancy will be achieved by March this year.

3. SOCIAL SUSTAINABILITY

There are two ways in which the project was intended to contribute to sustainability of the social fabric. The first links closely to the previous section on economic sustainability and concerns the creation of a business community within the project. The marketing brochure produced in 2005 puts it

> "The Quadrant ...... will provide an ideal environment for growth ..... where small and expanding companies are encouraged to work in partnership, where networks are facilitated and supported."

The design of the building incorporated high quality finishes and innovative features intended to encourage creativity, innovation, co-operation and inter-trading. The flexible offices open onto a glazed atrium forming an indoor "street" forming the spine of Building 1. The street links to the elegant areas containing the reception, exhibition space and cafe. These internal public spaces create areas where tenants can work, meet to do business and generate informal networks within the building.

The internal IT networks were designed to contribute to the development of a business community. IT services are provided by a partner who manages the connections and services for the tenants. Common services are provided by the Centre management including reception, postal facilities, photocopying and meeting spaces. Business advice and links are maintained through a range of support organisations including the Chamber of Commerce, Sheffield Business Club, Business Link and Sheffield First for Investment.

The project was also intended to contribute to the funding of the core programme of MCDT. The achievements of the Trust have included

- Grants to 1,000 voluntary groups
- 10,000 Community Health opportunities and facilities

- Care facilities for 700 local children
- The construction of 160 private homes through a partnership scheme with a private developer
- The creation of 97 new businesses and 572 jobs through managed workshops and other economic initiatives.
- A range of environmental improvements including a community park.

The original intention was to generate a surplus of some £400,000 per annum from rents after deducting the operating costs of the Quadrant. This was then to be used to finance a team of core staff to manage other MCDT schemes and also to generate funding from other sources. This model for asset based regeneration was based on the provision of all the funding of the capital costs through grant aid which initial negotiations with EEC and UK sources suggested was likely to be forthcoming. Relying on this expectation MCDT committed £750,000 of its own funds to initial designs and feasibility studies.

However, as the negotiations over grant aid were being finalised the scheme ran into two interlocking difficulties. The necessary financial appraisals had to conform to the rules of priority 5 of Objective 1 which is concerned with commercial growth and private sector coverage which allowed developers to make a profit of up to 15%.

Since MCDT is categorised as a voluntary and community sector organisation (Vol/com) under the same rules it is not allowed to make any profit. Thus if the financial appraisal showed a surplus the level of grant aid would be reduced. This does raise the issue of the meaning of "profit" which in this case could equally be characterised as reinvestment in charitable regeneration activities. The same rules meant that MCDT had to comply with procedures for private sector organisations and despite the land being earmarked for their use as part of the Single Regeneration Budget the organisation had to purchase the site for true open market value.

The second difficulty concerned the UK government's interpretation of EEC Stat Aid regulations which put a blanket cap on public funding of %0% commercial projects such as the Quadrant under priority 5 of Objective 1. Before the State Aid rules applied, a not for profit Vol/com organisation could receive up to 100% of the cost but now this exemption only applies to local authorities. This meant that MCDT had to take out a loan at commercial rates of interest to fund 50% of the cost of the scheme.

The interaction of these two limitations on public sector assistance result in higher outgoings to service the loan than were originally envisaged. The consequence is that the scheme will make little or no contribution to the other activities of MCDT as the finance is currently arranged. There are two possible ways forward. The interest rate on the loan is currently set at a level appropriate for a development project. As the scheme is established with a higher occupancy and a reliable income it will be seen as a lower risk and it may be possible to re-negotiate the loan at a lower interest rate. It may also be possible to attract some source of charitable funding into the scheme to reduce the levels of debt and outgoings.

4. ENVIRONMENTAL SUSTAINABILITY

The building includes several features which contribute to environmental sustainability. The design includes state of the art "low energy" internal systems, integrated into the architectural design. High levels of insulation are incorporated into the cladding system which comprises terra cotta facings on vapour barriers mounted on a metal frame. Care has been taken with the detailing of openings through the building envelope and with the finishing of the construction to ensure high air-tightness.

Breeze-solaire shading tins restrict heat gain and the windows use solar glass to minimise heat loss in winter and solar gain in summer. Natural lighting to the internal street is provided by north facing roof lights which minimise the variation in illumination at different stages of the path of the sun throughout the day. Natural ventilation is used for the first 8m of the depth of the building with mechanised ventilation for the remaining inner parts.

A system of photovoltaic panels placed on the roof generates 30k kilowatt hours of electricity per annum which saves 8 tons of CO_2 emissions compared to conventional forms of generation. This saves MCDT £1,500 p.a. in operating costs which is 4% of the total electricity bill. This seems to be a relatively low rate of return on the £130,000 total cost of installation. However the system received a grant of £70,000 from the Energy Saving Trust of the Central Government Department of Trade and Industry in order to promote the use of energy saving technology partly with a view to stimulate innovation.

A Building Research Establishment Energy Assessment Measure has been carried out on the building which was assessed as "Excellent", the highest score in the scale.

As part of the planning application on Environmental Travel plan was prepared. This included provision of cycle racks, a contribution to public transport routes and provision of a communal shower and locker facility to encourage cycling, jogging and walking to work. Travel patterns are monitored by MCDT who also promote and encourage car sharing arrangements.

5. CONCLUSIONS

MCDT has achieved the development of a highly innovative project which reflects its core values including economic social and environmental sustainability.

The scheme will provide accommodation for a range of small businesses in a novel environment which will contribute to the regeneration of the local economy. The extent to which this contributes to the establishment of an interactive network of companies in an economic community will need to be monitored to judge its success in this respect.

Changes from initial proposals for grant assistance have meant that the initial intention to use the income to create cross funding to generate asset based regeneration in other parts of the Manor and Castle area has not yet been achieved.

In order to generate funds for other activities grant regimes must be capable of funding levels which allow schemes to make an operating surplus. The rules need to be clear so that the projects can be designed and set up to achieve asset based regeneration from the outset.

BIOGRAPHICAL NOTES

David Parsons is a member of the Royal Town Planning Institute and The Royal Institution of Chartered Surveyors.

David works at Sheffield Hallam University where he carries out work on the relationship between property market dynamics and social and economic processes. He previously worked for public sector planning departments for fifteen years and as a consultant in the private sector for seven years. He has written for a range of journals and books and regularly addresses international conferences.

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