



REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE SERVICES COMMITTEE ON 19 OCTOBER 2021

SUBJECT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2020/21

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

- 1.1 This report sets out the annual performance of the Council's Industrial Portfolio in 2020/21.
- 1.2 This report is submitted to Committee in terms of Section III (F) (3) of the Council's Scheme of Administration relating to industrial and commercial development.

2. RECOMMENDATION

2.1 It is recommended that Committee:-

- (i) considers and notes this Annual Industrial Portfolio Report for 2020/21;**
- (ii) welcomes the good performance of the Council's Industrial Portfolio; and**
- (iii) approves the Annual Review of the portfolio's constituent properties as set out in Section 6 of this report.**

3. BACKGROUND

- 3.1 The Moray Council's industrial portfolio comprises a range of industrial land and buildings throughout Moray including all of the principal settlements. At 31 March 2021, the Council's industrial portfolio comprised 175 industrial buildings with a total floor area of 30,499m²; 130 development and ground leases with a total site area of 21 hectares, and a stock of serviced and unserviced land for future development totalling 20.92 hectares. The distribution of industrial buildings, industrial sites and development land in Moray is detailed in **APPENDIX I**.
- 3.2 Annual reports have been presented to Committee since 2002; the last report was submitted for noting to the Economic Growth, Housing and Environmental

Sustainability Committee on 6 October 2020. This report is submitted as the Council's Annual Industrial Portfolio Report for 2020/21, providing a summary of the portfolio's performance and main issues.

4. **PERFORMANCE**

Rental Income

4.1 The total gross rental income for the past 5 years is set out below:-

2016/2017	£1,753,000
2017/2018	£1,756,000
2018/2019	£1,930,000
2019/2020	£1,954,000
2020/2021	£1,940,000

4.2 **APPENDIX II** illustrates the gross rental income generated by the industrial portfolio over the period 2012/13 to 2020/21.

4.3 It was forecast in last year's annual report that the portfolio's rental income would decrease in 2020/21 principally due to the sale of three properties (detailed at para 4.12 below) which no longer matched the objectives of the portfolio and/or where the costs/risks (such as repairs, void periods and empty property rates) were considered to be outweighed by the opportunities to realise capital receipts. In addition, it was feared that the impact of the coronavirus pandemic would negatively affect demand and property rentals. The decrease in the rental income of only £14,000 from 2019/20 was much less than expected and the rental income in 2020/21 exceeded the budget target of £1.912M.

4.4 The net rental income after deduction of property running costs, staff, administrative and capital financing costs decreased by £6,000 in 2020/21 to £1,334,000. Again, this was a much smaller decrease than had been anticipated.

4.5 **APPENDIX II** illustrates the net rental income generated by the industrial portfolio over the period 2013/14 to 2020/21.

4.6 It is very difficult to compare the rental of the industrial portfolio objectively over a number of years as its composition changes due to the sale of properties, addition of new properties and the refurbishment and repair of existing properties. However, **APPENDIX III** demonstrates how increases in rental achieved at rent review for industrial premises (3 yearly rent reviews) and for industrial sites (5 yearly rent reviews) have continued to outstrip the Retail Prices Index over the corresponding periods, but to a lesser extent than previous years.

Debt

4.7 The level of rent/insurance arrears was 8.7% at 31 March 2021 - up from 7.06% at 31 March 2020. This increase is due to the impact of the coronavirus on tenants and the Estates team is working corporately with Legal Services and Finance to arrange repayments and minimise arrears, with a

range of measures deployed to safeguard the Council's interests if discussions with tenants fail to reach satisfactory outcomes.

Occupancy

- 4.8 The occupancy levels of Council industrial buildings in recent years are set out below:-

Year	% of floorspace occupied	% of buildings occupied
2016/17	96.1%	95.4%
2017/18	94.4%	92.7%
2018/19	83.57%*	93.18%
2019/20	93.54%	95.48%
2020/21	88.84%	93.71

* The floor area occupancy figures for 2018/19 were skewed as a result of the former sawmill at Waterford Circle in Forres (which was by far the largest in the portfolio) becoming vacant.

- 4.9 At 31 March 2021 the occupancy rate in terms of buildings occupied was 93.71% compared to the target of 80%.
- 4.10 The % floor space occupied at 31 March 2021 is lower than at 31 March 2020 primarily due to large units in Lossiemouth and Keith becoming vacant. The unit in Lossiemouth has since been re-let and the Unit in Keith is under offer of lease.

Capital Receipts

- 4.11 The sale of industrial land and buildings has generated capital receipts to the Council over the past 5 years as follows:-

2016/17 -	£0
2017/18 -	£70,500
2018/19 -	£0
2019/20 -	£417,000*
2020/21 -	£605,250

* Sale of land at Rathven Industrial Estate

- 4.12 In 2020/21 the Council completed the following transactions:-
- Sale of former Sawmill, Waterford, Forres.
 - Sale of building and simultaneous new long ground lease at 3 Mosstodloch Industrial Estate.
 - Sale of ground lease interest in the National Tyres site at Edgar Road, Elgin.

Development

- 4.13 In recent years the Council has invested in general upgrading works to the Industrial Portfolio to ensure the properties remain responsive to future business needs. During 2020/21, the Council invested £67,000 of revenue and £85,500 of capital in the Industrial Portfolio and in supporting industrial development in Moray through the following projects:-

1. Fencing and ground works at March Road, Buckie.
 2. Asbestos roof replacement at 6 March Lane, Buckie.
 3. Electrical upgrades at Chanonry Business Centre, Elgin.
 4. General upgrading at 8 Chanonry Road South, Elgin.
 5. Gates to new yard at Chanonry Spur, Elgin.
 6. Ground works at Waterford, Forres.
 7. Site investigations at Waterford Circle, Forres.
 8. Upgrade road at Isla Bank, Keith.
 9. Upgrading of Unit P Isla Bank, Keith.
 10. Electrical upgrades at Westerton Road Business Centre, Keith.
 11. New gas heating at Unit R Isla Bank, Keith.
 12. New pumps for sewerage system at Isla Bank, Keith.
 13. Upgrade of Unit F Isla Bank, Keith.
 14. Roof repairs, Unit D, Isla Bank, Keith.
 15. Electrical upgrades at Coularbank Business Centre, Lossiemouth.
 16. Electrical upgrades at 8 Mosstodloch.
 17. Miscellaneous repairs, maintenance and minor improvements at various locations.
- 4.14 Refurbishment works ensure the properties continue to meet business needs and safeguard future rental income. Officers will continue to work with tenants on the most appropriate ways to deliver improvements to properties, including agreeing where appropriate for tenants to do works in return for commensurate temporary reductions in rental or capital payments.
- 4.15 Whilst the revenue repairs budget is sufficient at present to meet ongoing repairs and maintenance needs, as the portfolio expands and the newer units age, there will likely be a future requirement to increase the revenue repairs budget.

5. TRENDS AND CHALLENGES

Coronavirus

- 5.1 The coronavirus pandemic and associated restrictions have had adverse impacts on the majority of tenants. All bar a few suspended trading during the first national lockdown from 23 March 2020 until mid July 2020 and many continued to experience trading difficulties thereafter.
- 5.2 Officers worked closely with tenants to try and mitigate the impacts, including providing advice on available funding assistance. In accordance with Scottish Government advice and consistent with the approach of most other Scottish Local Authorities it was agreed to defer rental payments temporarily with approximately 72 tenants who requested such assistance. This was with a view to subsequently agreeing phased repayments of the deferred rent. In addition, rent reviews, which fell due during lockdown, were deferred and with a view to being implemented after lockdown lifted.
- 5.3 The level of rental debt increased significantly during the first lockdown and officers have been working closely with tenants to agree phased repayments. Although the portfolio's debt has reduced from the peak, it is still above pre

COVID levels. Most tenants are managing to make phased repayments, but a number are struggling to do so.

- 5.4 Approximately 7 tenants have terminated their leases citing COVID reasons. As at 31 July 2021, it was estimated that lost rent and increased rates liability to the industrial portfolio due to COVID amounted to around £48,500. This money is to be funded from COVID reserves.
- 5.5 Although there was little demand for vacant units during the first lockdown, the market bounced back surprising well thereafter, with good demand for units and rentals have remained stable. Occupancy rates have generally remained high; however, there has been a series of recent lease terminations at Isla Bank Mills, Keith and occupancy rates at that estate have dropped below normal levels.
- 5.6 Isla Bank Mills has traditionally been the first part of the portfolio to experience vacancies during times of economic downturns and officers will monitor closely the impact on the portfolio as government schemes providing support to businesses are reduced/phased out.

Supply of Properties

- 5.7 Although for decades there has been very little private sector provision of industrial property to let in Moray, 36 units for speculative let have recently been completed by private developers in Elgin. These have been facilitated by public sector investment in infrastructure to provide serviced sites. Officers will monitor their progress and take account of this activity in assessing future property needs and their impact on occupation and rentals of Council properties.
- 5.8 In 2020/21 the industrial portfolio continued to meet its objectives of:-
- (i) minimising the number of vacant properties as far as is consistent with current market conditions; and
 - (ii) maximising overall rental income and thereby minimising the cost of the service.
- 5.9 However, there remain concerns about a shortage of industrial development land and units in various locations (excluding Elgin).
- 5.10 The following actions are aimed at addressing supply issues:-
- (i) a major extension of March Road Industrial Estate in Buckie has provided a supply of industrial development land in East Moray;
 - (ii) discussions are taking place with Highlands and Islands Enterprise about purchasing land at the Enterprise Park, Forres to facilitate serviced sites and business units of a general industrial nature. Indicative designs are being prepared with a view to preparing a Business Case and assessing financial viability;

- (iii) discussions are taking place with the owner of land recently zoned for industrial purposes on the outskirts of Forres with a view to the Council purchasing land and developing a new industrial estate;
- (iv) discussions are taking place with landowners in Speyside with a view to the Council purchasing land and providing serviced sites and business units as demand and finances dictate;
- (v) officers continue to work with private developers to facilitate the provision of new business units;
- (vi) potential further opportunities to acquire and develop land and buildings will be considered as part of the Council's asset management rationalisation programme;
- (vii) existing properties will be repaired and refurbished as required;
- (viii) proposals for funding future development of the Industrial Portfolio will be brought forward through the Council's asset management, capital planning and economic development capital fund processes; and
- (ix) relocation of Council services occupying industrial portfolio property as opportunities arise.

Occupation of Properties by Council Services

- 5.11 12 of the Council's properties are occupied by Council services, which is contrary to the objectives of the portfolio to maintain an adequate supply of affordable premises in appropriate locations within Moray and maximise overall rental income. However, the vast majority of these properties are within the scope of current reviews of Council depots and stores being carried out by the Head of Housing and Property in terms of the Council's Property Assessment Management Appraisal and it is planned that where opportunities arise officers will seek to relocate Council services to free the properties for letting to private enterprises.
- 5.12 Occupation of industrial units by Council services has occurred in a piecemeal fashion over many years. In order to take a strategic asset management approach any new requests by Council services will be considered by the Asset Management Working Group.

Non-Commercial Occupation of Properties by Council Services

- 5.13 Using delegated powers the Chief Executive approved a lease of Unit 1 at Coularbank Business Centre at a nominal rent for a period of up to 6 months from 15/4/21 to a not for profit community organisation providing coronavirus food relief.
- 5.14 The Moray Council at its meeting on 12 May 2021 (para 16 of Minute refers) agreed that delegation be granted to the Chief Financial Officer in conjunction with the Head of Housing and Property Services to approve low value short term concessionary rentals to community groups where the following circumstances pertain:

- Where the annual value of the lease is £1,000 or less, a lease or licence to occupy may be granted and renewed until that threshold is reached.
- Where the annual value of the rent foregone is between £1,000 and £6,000 and the length of the requested lease or licence to occupy is for no more than 6 months, with any requests for extension subject to committee approval.

and in all cases

- The service whose property is requested for use supports the request.
- Ward members support the request.

5.15 Any longer term requests by charities and community groups to occupy Council properties at less than market value are considered via the Community Asset Transfer (CAT) process.

Energy Efficiency

5.16 Since 2018 in England and Wales there has been a prohibition on letting properties with Energy Performance Certificates (EPCs) worse than E ratings. In 2018 the Scottish Government consulted on draft proposals to make non-domestic properties more energy efficient and further consultations were been delayed due to the coronavirus. It is expected that approximately 35 units with heating systems will be in scope and officers will continue to monitor developments closely whilst investigating cost effective means to comply.

Mosstodloch Industrial Estate

5.17 This estate has suffered flooding on several occasions during periods of exceptional rainfall, despite significant investment by the Council in upgrading the surface water drainage system. A major adjacent business has installed various water/drainage alleviation measures, which have mitigated flooding at this location. That business is investigating options to expand its operations in Mosstodloch, including comprehensive flood solutions within its proposals and officers continue to liaise with the company.

Budgetary

5.18 Budget pressures have limited opportunities to further develop the portfolio in recent years. However, monies are allocated in the capital plan and COVID Economic Recovery monies are potentially now available. As such, officers are investigating the purchase and development of land to provide serviced sites and business units in Forres and Speyside.

5.19 A number of industrial portfolio developments were funded with assistance from the European Union. The audit processes for a number of the funding schemes have now been completed with the others are due to be complete in the next 2-3 years. As such, conditions attached to European funded projects will no longer apply. The UK Shared Prosperity Fund (due to be launched in April 2022) is intended to replace European Structural Funds. However, decisions on its detail have been delayed due to due to COVID. Officers will

continue to monitor developments on this and any other potential investment opportunities and replacement of European funding.

2021/22 Projects

5.20 Monies have been allocated in the current capital programme to carry out condition surveys and for the refurbishment of the portfolio. The condition surveys were delayed due to the coronavirus, but are now progressing. Meantime officers have identified the following projects:-

- a) Fencing and gates to create yards at Rathven Industrial Estate, Buckie.
- b) Various site works at Chanonry, Elgin.
- c) Create additional car parking at Greshop Industrial Estate, Forres.
- d) Road repairs at Greshop Industrial Estate, Forres.
- e) Provide new roller door at Unit F Isla Bank, Keith.
- f) Drainage works at Isla Bank, Keith.
- g) Roof works at Isla Bank Mills, Keith.
- h) Internal alterations to Unit A Balloch Road, Keith.

6. ANNUAL REVIEW

6.1 A review of the portfolio has been carried out concluding that all the portfolio's constituent properties should be retained with the exception of the following properties:-

- Site at March Road West, Buckie – Disposal was approved in principle by this committee at its meeting on 10 September 2019 (para 8 of Minute refers). Following a public consultation the Economic Growth, Housing and Environmental Sustainability Committee at its meeting on 24 August 2021 (para 19 of Minute refers) approved the main terms of sale, subject to court consent being obtained for the sale of Common Good land.
- 11 March Road East, Buckie. This property is leased out by way of a long ground lease and operated as a container self-storage facility. There is a small office store building on the site. The tenant has been granted permission to demolish the building to create space for additional containers.
- Former Abattoir, 9 Linkwood Place, Elgin – this property is on the market for lease or sale as approved in principle by this committee at its meeting on 10 September 2019 (para 8 of Minute refers). Officers are in negotiations with an interested party and intend to report to committee as appropriate if provisional terms of sale can be agreed.
- 6 March Road East, Buckie – this is a former fish-processing factory and is not ideally suited to most business needs (including the current tenant). The property is in need of significant investment and it is intended to explore options with the current tenant to facilitate its upgrading, whilst retaining ownership of the ground by way of a long lease. It would be intended to report to the Corporate Services Committee for approval if terms can be provisionally agreed.

7. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The management and development of the Industrial Portfolio supports the LOIP priority of “a growing, diverse and sustainable economy” as well as the priority of the Corporate Plan of promoting economic development and growth. It also accords with the aim of the Moray Economic Strategy of facilitating economic growth and diversification of the local economy.

(b) Policy and Legal

The policy objectives of the industrial portfolio are as follows:-

- a) To maintain an adequate supply of affordable premises in appropriate locations within Moray;
- b) To minimise the number of vacant properties as far as is consistent with current market conditions; and
- c) To maximise overall rental income and thereby minimise the cost of the service.

(c) Financial Implications

Gross rental income in 2020/21 was £1,940,000 and net rental income £1,334,000.

Revenue expenditure in 2020/21 was within budget. A number of revenue and capital works were delayed due to the coronavirus and £144,000 of capital has been carried forward into 2021/22. £255,000 is allocated in the 2021/22 capital plan for refurbishments and other industrial portfolio development works. Condition surveys will assist prioritising future refurbishment works and spend.

Looking forward, revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2021/22.

Proposals for future years' capital developments will be taken forward through the Council's financial planning process.

(d) Risk Implications

The main risks are detailed above in Section 5 of this report.

(e) Staffing Implications

The Estates Team manages the Industrial Portfolio on behalf of the Council. Workload within the team is at capacity and timescales are having to be extended on priority tasks. Any expansion of the industrial portfolio would require additional staff resource.

Legal Services staff continue to be involved in formalising lease agreements and pursuing rent arrears where necessary.

(f) Property

The property implications are as detailed in this report.

(g) Equalities/Socio Economic Impact

There are no equalities or socio economic issues arising from this report.

(h) Consultations

The Head of Housing and Property Services, Paul Connor, Principal Accountant, the Design Manager, the Legal Services Manager, the Head of Development Services, the Equal Opportunities Officer and Lissa Rowan, Committee Services Officer have been consulted and their comments incorporated in this report as appropriate.

Discussions continue to take place regularly with Highlands and Islands Enterprise (HIE) and private sector developers to ensure a co-ordinated and complimentary approach to property provision. HIE concentrates on the provision of larger, higher specification/amenity properties, whereas the Council focuses on smaller more general industrial properties.

Officers continue to liaise regularly with private sector developers/providers of industrial property.

8. CONCLUSIONS

8.1 The Industrial Portfolio exceeded targets for rental income and occupancy in 2020/21.

8.2 Many tenants have been adversely affected by the coronavirus and officers are continuing to work with them to try to mitigate the impact on tenants and the performance of the industrial portfolio.

8.3 Opportunities to provide further serviced development sites in Forres and Speyside are being investigated.

8.4 To ensure the portfolio continues to meet business needs a programme of works is in place to improve the condition of the Council's existing industrial buildings. The projects have been delivered within budget and ensure the Council's portfolio continues to meet business needs and support economic development in Moray.

8.5 Officers will explore options to facilitate private investment in 6 March Road East, Buckie.

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Background Papers: None

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