



REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE SERVICES COMMITTEE ON 6 SEPTEMBER 2022

SUBJECT: INFORMATION REPORT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2021/22

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 2021/22.

2. BACKGROUND

- 2.1 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 2022, the Council's industrial portfolio comprised 175 industrial buildings with a total floor area of 30,459m²; 130 development and ground leases with a total site area of 20.70 hectares and a stock of serviced and unserviced land for future development totalling 21.12 hectares. The distribution of industrial buildings, industrial sites and development land in Moray is detailed in **APPENDIX I**.
- 2.2 Annual reports have been presented to Committee since 2002; the last report was presented to the Economic Growth, Housing and Environmental Sustainability Committee on 19 October 2021. This report is submitted as the Council's Annual Industrial Portfolio Report for 2021/22, providing a summary of the portfolio's performance and main issues.

3. PERFORMANCE

Rental Income

- 3.1 The total gross rental income for the past 6 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
2021/2022	£2,066,000

- 3.2 Rental income was impacted by the Covid lockdown in 2020/21 and there was considerable uncertainty over the medium/long term impact on the portfolio. However, as can be seen the total rental income increased by £126,000 in 2021/22, exceeding the budget target of £1,890,000. Part of this was due to the implementation of rent reviews which were deferred during Covid lockdown. The portfolio's annual income has increased by £787,000 over the last 10 years. **APPENDIX II** illustrates the gross rental income generated by the industrial portfolio over the period 2011/12 to 2021/22.
- 3.3 The net rental income after deduction of property running costs, staff, administrative and capital financing costs increased by £131,000 in 2021/22 to £1,465,000. **APPENDIX II** illustrates the net rental income generated by the industrial portfolio over the period this has been recorded - 2013/14 to 2021/22.
- 3.4 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 Consumer Prices Index over the corresponding periods, but to a lesser extent than previous years.

Debt

- 3.5 Debt increased significantly due to the impact of the coronavirus on tenants and the Estates team continues to deploy considerable resources (working corporately with Legal Services and Finance) to work with tenants to minimise arrears. A range of measures are used to safeguard the Council's interests if discussions with tenants fail to reach satisfactory outcomes.
- 3.6 Progress has been made and the level of rent/insurance arrears was 6.74% at 31 March 2022, down from 8.7% at 31 March 2021.

The % debt on this basis for the last five years is:-

2017/18 - 4.66%
 2018/19 - 6.99%
 2019/20 - 7.06%
 2020/21 - 8.7%
 2021/22 – 6.71%

Occupancy

- 3.7 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%

2021/22	92.45%	92.57%
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* 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.

3.8 At 31 March 2022 the occupancy rate in terms of buildings occupied was 92.57% compared to the target of 80%.

3.9 Although around 10 tenants' leases terminated due to Covid, new tenants have been secured for the majority of those properties.

Capital Receipts

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

2017/18 -	£70,500
2018/19 -	£0
2019/20 -	£417,000
2020/21 -	£605,250
2021/22 -	£23,900

3.11 In 2021/22 the Council completed the sale of the building and simultaneous new long ground lease at 11 March Road East, Buckie.

Development

3.12 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 2021/22, the Council invested £80,000 of revenue and £62,500 of capital in the Industrial Portfolio and in supporting industrial development across Moray through a range of projects including roof repairs, electrical repairs/upgrades, new heating systems, surface and foul water repairs/upgrades, estate road repairs and design work for new projects to create serviced sites.

3.13 Refurbishment works ensure 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.

3.14 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.

4 TRENDS AND CHALLENGES

Coronavirus

4.1 The coronavirus pandemic and associated restrictions had adverse impacts on the majority of tenants. All but 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.

- 4.2 However, 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 with a view to being implemented after lockdown lifted.
- 4.3 The level of rental debt increased significantly during the first lockdown and officers worked closely with tenants to agree phased repayments. As shown at para 3.6 above, the portfolio's debt has reduced with most tenants managing to make phased repayments. Officers have closely monitored the impact of the phasing out of government Covid support packages and continue to work closely with a number of tenants who are still struggling to recover.
- 4.4 Deferred rent reviews have now been implemented and although there was little demand for vacant units during the first lockdown, the market recovered quickly thereafter, with good demand for units and rentals have remained stable.

Economy

- 4.5 There is global and national uncertainty surrounding the war in Ukraine, recovery from the Covid-19 pandemic and the economic implications of Brexit. Whilst the Moray commercial property market is considered to be currently stable, recent forecasts of recession for the UK economy and inflationary pressures are likely to impact on local businesses, with knock on effects for the industrial portfolio likely to include weaker demand, increased voids, increased debt levels and pressure on rents.

Supply of Properties

- 4.6 Although for decades there has been very little private sector provision of industrial property to let in Moray, 36 units for speculative let were completed by private developers in Elgin in the last 2 years. These have been facilitated by public sector investment in infrastructure to provide serviced sites. Officers are aware that many remain vacant, indicating that there are sufficient units (if not an oversupply) in the town. Officers will continue to monitor the situation and take account of this in assessing future property needs and impact on occupation and rentals of Council properties.
- 4.7 Elgin Business Park was developed by Saltire Properties with infrastructure funding assistance from Highlands and Islands Enterprise to meet a shortage of industrial development land in the town. The Park has been very successful and very few sites remain available. This reflects pent up demand from businesses seeking to invest in developing their own bespoke premises, which were previously frustrated by the lack of suitable sites. The Council's Employment Land Audit 2022 (which is also on the agenda of this meeting as an information report) states that due to the take up of sites at Elgin Business

Park it is anticipated that the level of immediately available land in Elgin will reduce significantly over the next few years and bringing forward and servicing new sites will be critical to maintaining supplies.

4.8 The Employment Land Audit also highlights significant shortages of general industrial land in Speyside and Forres that requires to be urgently addressed.

4.9 In 2021/22 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.

4.10 However, there remain concerns about a shortage of industrial development land and units in various locations.

4.11 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) proposals for the Council to purchase and develop a site on the Enterprise Park, Forres have been put on hold as Highlands and Islands Enterprise (HIE) is working to facilitate a number of high tech developments at that location;
- (iii) However, working in partnership the Council and HIE are seeking to purchase and develop land zoned for industrial purposes on the outskirts of Forres with a view to creating a new industrial estate and expansion of the adjacent Business Park; Designs and draft Joint Venture arrangements between the Council and HIE are being prepared, with a view to preparing a Business Case and assessing financial viability;
- (iv) discussions are taking place with the landowner of a potentially suitable site in Speyside with a view to the Council purchasing land and providing serviced sites and business units;
- (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. A review of the Council's depot and storage properties is expected to be presented to this committee meeting, which will include identifying opportunities to relocate Council services currently occupying industrial portfolio property;
- (vii) existing properties will be repaired and refurbished as required; and

(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.

- 4.12 The Council's 20 industrial units in Buckie have been virtually fully let for a number of years. When tenants vacate buildings they are readily re-let and it is expected that demand will increase due to Buckie's development as a base for offshore wind operations creating supply chain opportunities. Officers intend to give consideration to developing proposals to build more small units on land at Rathven Industrial Estate.

Rentals

- 4.13 Rents of the industrial portfolio properties have risen steadily for around 15 years, consistently outpacing rises in inflation. However, as **APPENDIX III** demonstrates there is evidence that rental increases are now slowing. Reductions in rental income from the sales of 6 March Lane, Buckie and 2 Dufftown Industrial Estate, as detailed below in Section 6 of this report, will temper growth in the portfolio's rental income in 2022/23. With the Bank of England forecasting inflation to continue to rise this year it is highly likely that for the first time since the initial Annual Industrial Report in 2002 inflation will outstrip rental growth in 2022/23.
- 4.14 In Elgin, the construction by the private sector of 36 new units has not materially impacted demand and rents for the Council's properties in the town. However, if those companies reduce their rentals to try and secure more lettings it is likely to impact on demand and rental growth of the Council's units.

Occupation of Industrial Portfolio Properties by Council Services

- 4.15 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 the current review of Council depots and stores being taken forward by the Head of Housing and Property and it is planned that where opportunities arise officers will seek to relocate Council services to free the properties for letting to private enterprises.
- 4.16 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.

Energy Efficiency

- 4.17 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 delayed due to the coronavirus. It is unclear at this stage if proposals will be targeted at CO² producing heating systems of which there are 19 industrial units, or impact more widely on the portfolio which has approximately 63 units with heating systems. Officers will continue to monitor developments closely

whilst investigating cost effective means to comply. Meantime a Council bid for Just Transition funding includes a proposal for consultants to advise how the industrial units with CO² producing heating systems could be made Net Zero.

Mosstodloch Industrial Estate

- 4.18 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

- 4.19 Budget pressures have limited opportunities to further develop the portfolio in recent years. However, monies including additional funding for economic recovery are allocated in the capital plan and officers are investigating the purchase and development of land to provide serviced sites and business units in Forres and Speyside.
- 4.20 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 due to be complete in the next 1-2 years. As such, conditions attached to European funded projects will no longer apply. Officers are investigating if there is potential to secure funding for industrial development from the UK Shared Prosperity Fund, the Place Based Investment Fund and the Just Transition Fund.

2022/23 Projects

- 4.21 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 officers expect to be able to appoint consultants in early course. Meantime officers have identified the following projects:-
- a) Upfill site at Chanonry Road North, Elgin.
 - b) Create secure yards at Rathven Industrial Estate, Buckie.
 - c) Install roller door in unit at Pinefield Business Centre, Elgin.
 - d) Upgrade road, circulation and parking areas at 4-8 Chanonry Road South, Elgin.
 - e) Road repairs West Road, Greshop Industrial Estate, Forres.
 - f) Remove glass entrance atriums and create additional parking at various units Isla Bank Mills Industrial Estate, Keith.
 - g) Roof upgrades, Isla Bank Mills Industrial Estate, Keith.
 - h) Create new vehicular entrance to Unit F Isla Bank Mills Industrial Estate, Keith.
 - i) Drainage works at Isla Bank Mills Industrial Estate, Keith.

5. ANNUAL REVIEW

5.1 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. Court consent has been obtained for the sale of Common Good land and the transaction is expected to complete shortly.
- Former Abattoir, 9 Linkwood Place, Elgin – as approved in principle by this committee at its meeting on 10 September 2019 (para 8 of Minute refers) this property was marketed for lease or sale and offers were reported to the Corporate Services Committee at its meeting on 1 February 2022 (para 10 of the Minute refers). Solicitors are working to conclude a sale with the highest offerer, with the transaction expected to complete shortly.
- 6 March Lane, Buckie – this former fish-processing factory is not ideally suited to most business needs (including the current tenant) and is in need of significant investment. The Economic Growth, Housing and Environmental Sustainability committee, at its meeting on 24 August 2021 (para 19 of the Minute refers), agreed in principle to sale of the building whilst retaining ownership of the ground by way of a long lease. Provisionally agreed main terms were approved by the Corporate Services Committee at its meeting on 1 February 2022 (para 11 of the Minute refers) and solicitors are working to conclude a sale.
- 2 Dufftown Industrial Estate – as approved by Moray Council at its meeting on 6 April 2022 (para 21 of the Minute refers) the Council sold 2 Dufftown Industrial Estate on 10/6/22, to its tenant, for £33,200. This Council owned land was leased to Joseph Brown Vats of Dufftown (which is owned by Forsyths Engineering) at a rent of £2,000 per annum. The company used it as a yard for timber storage, but sought to extend its existing facility located on adjacent 1 Dufftown Industrial Estate (which the company owns) onto 2 Dufftown Industrial Estate. There would have been long term risks for the company developing on a site part owned and part leased. The sale of the Council's land facilitated private sector investment and business growth.

The sale of this property was linked to the acquisition from Forsyths, by the Council, of 36 Commercial Road, Buckie to facilitate the Council's strategic plans at Buckie Harbour to support the town's role in offshore wind developments.

6. 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. In addition the Moray Economic Partnership’s Economic Recovery Plan is designed to accelerate economic recovery from the impacts of Covid 19 and includes the provision of employment land in Forres and Speyside/East of Moray.

(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 2021/22 was £2,066,000 and net rental income £1,465,000.

A number of revenue and capital works were delayed due to the coronavirus and £193,000 of capital has been carried forward into 2022/23.

The allocations in Table 1 below have been made in the capital plan for 2022/23.

Table 1

<u>Item</u>	<u>Monies</u>
Serviced Sites Elgin	£24,000
Condition Surveys	£40,000
Road Upgrades	£10,000
Refurbishments	£146,000
Portfolio Expansion Forres	£3,079,000
Portfolio Expansion Speyside	£5,000

Condition surveys will assist prioritising future refurbishment works and spend.

The allocations in Table 2 below have been made in the Economic Recovery monies in the capital plan for 2022/23.

Table 2

<u>Item</u>	<u>Monies</u>
Portfolio Expansion Forres	£545,000
Portfolio Expansion Speyside	£700,000

Revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2022/23.

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. As the proposed expansion plans for Forres and Speyside develop and business cases are presented on each they will include options to expand available resource to ensure the portfolio continues to be managed appropriately.

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) Climate Change and Biodiversity Impacts

No climate change or biodiversity implications have been identified relating to the recommendations of this report.

(i) Consultations

The Head of Housing and Property Services, Paul Connor, Principal Accountant, the Property Asset 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) 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.

7. CONCLUSIONS

7.1 The Industrial Portfolio exceeded targets for rental income and occupancy in 2021/22.

- 7.2 Proposals to provide further serviced development sites in Forres and Speyside are being taken forward.**
- 7.3 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.**

Author of Report: Stuart Beveridge, Estates Manager
Background Papers: None
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