CARLISLE
CITY COUNCIL

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REPORT TO EXECUTIVE

Agenda item
16(a)

PORTFOLIO AREA: POLICY, PERFORMANCE MANAGEMENT, FINANCE & RESOURCES

Date of Meeting: 1 September 2003

Public

Key Decision: Yes   **Recorded in Forward Plan:** Yes

Inside Policy Framework – Yes

Title:	**ASSET MANAGEMENT PLAN REVIEW OF ECONOMIC ASSETS**
Report of:	**HEAD OF PROPERTY SERVICES HEAD OF ECONOMIC & COMMUNITY DEVELOPMENT SERVICES**
Report reference:	**PS 08/03 & ECD 28/ 03**

Summary

The Council owns a uniquely large portfolio of economic based assets in comparison with other Districts and has a serious long-term track record in using property to achieve employment creating objectives. Challenging whether the public sector should have a role in the future, Consultants' advise that the Carlisle property market requires the Council to continue as an active enabler. However, there is a significant issue concerning the industrial estates which does need addressing – the need for investment to maintain the value of the asset and to support economic development objectives. This report sets out the broad steps that are recommended to change the Council's approach from provider to enabler.

Recommendations: It is recommend that:

1. The reports written by Lamb & Edge / Carigiet Cowen be noted;
2. The Executive formally acknowledges that there is a continuing rationale for the public sector to be involved in the Carlisle property market in order to further City Vision objectives;
3. The recommendations as prepared by Lamb & Edge / Carigiet Cowen be approved in principle subject to new policy work to include:
   (1) Preparing one clear and concise policy document that clearly links to property ownership to corporate objectives and sets out a flexible 10-year plan for the portfolio;

(2) Agreeing that for the non-operational portfolio, economic development is the primary reason for ownership;

(3) Appraising options on an estate by estate basis to ascertain the best route to pursue in order to achieve and support economic development;

(4) Confirming an immediate ring-fencing of all new property income and capital receipts to be retained only for re-investment in the portfolio;

(5) Investigating the delivery of a public sector led central office park location to attract private sector development, which will both slow down the drift of occupiers to out-of-town sites and attract new office-based employment to the City.

4. Resources totalling £50,000 be approved to undertake the policy and appraisal work during 2003/4 and 2004/5.

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1. INTRODUCTION

1.1 Property is owned by the private and public sectors for two reasons:

- To service objectives.
- To create income and profit.

1.2 Carlisle City Council has a superb track record to service objectives, using property assets, be they leisure or economic development. The outcome for economic development is a portfolio of property which is significantly large for a local authority. However, the rationale that made the Council the lead developer of industrial sites from 1950 to 1990 is no longer appropriate. The Council's overall role as provider has changed. Partnership using private capital can now achieve the same outcomes.

1.3 The property portfolio has become an end in its own right. The economic development rationale has been lost. Investment in the industrial estates has been inadequate over a long period. The consequences of continuing to act as a provider - and under present policies not a very good one, will be a major fall in income and an increased liability. Yet the rich legacy of the past 40 years of investment remains. The Council provides land for several hundred businesses. Several thousand people are employed on the City's estates.

1.4 There is no clear picture of the part property will play in the Council's development strategies for, say, the year 2020. This will evolve to support Council priorities as they emerge. However if the Council [and Carlisle] is to continue to reap the reward of decisions that were made in the 1950 – 1990 period it must change the management policies for many of its economic development assets from those of a provider to an enabler, one that enables business led growth, investment and change to meet market needs. This report provides the strategic context for that change of approach, with recommendations in order to get there, requiring a new way this Council treats its assets to respond to the changing needs of the local economy. The Council must become an enabler, sharing risk to achieve public and private objectives. The Council already has experience of this approach in relation to new projects such as the Lanes. It should adopt the same approach with its other economic development assets.

2. BACKGROUND

2.1 Following the Audit Commission review into both Economic Development and Property Services, and as outlined in the Council's well received Asset Management Plan, consultants were appointed to challenge:-

Question:		Answer
(a)	Does the Council still have a role to play in the local property market, or is the market dynamic enough to take care of itself?	Yes, the Council has a significant role to play in the industrial and office market because these markets require public sector leadership whilst primary retail is dynamic enough now to take care of itself.

(b)	Are the Council's land management policies contributing or holding up economic development?	The Council is holding up economic development and needs to change.

2.2 Consultants were appointed in 2002 to seek answers to the questions posed – and provide background advice to the Council in order that new policy could be developed.

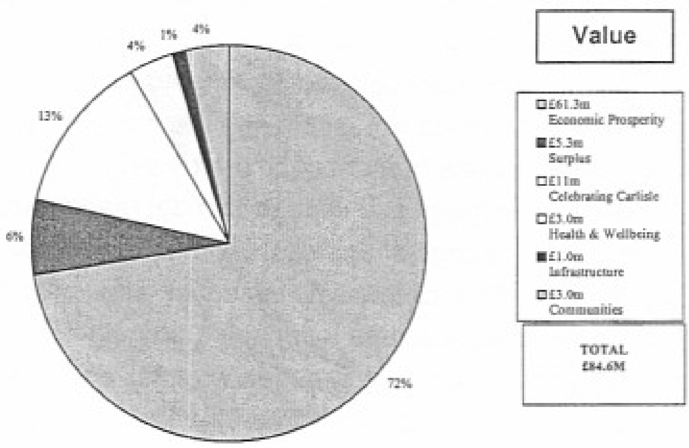
2.3 The Consultants – a northern based regional firm (Lamb & Edge) with input from local surveyors Carigiet Cowen – produced reports as attached. They are entitled:-

- Carlisle's Commercial Property Market (Report A);
- Making the City Council's Property Work for Carlisle (Report B).

3. ASSET ANALYSIS

3.1 In the Asset Management Plan, the Council's asset portfolio as at 1 April 2002 and the links with Corporate and Asset Plan Objectives have been analysed:

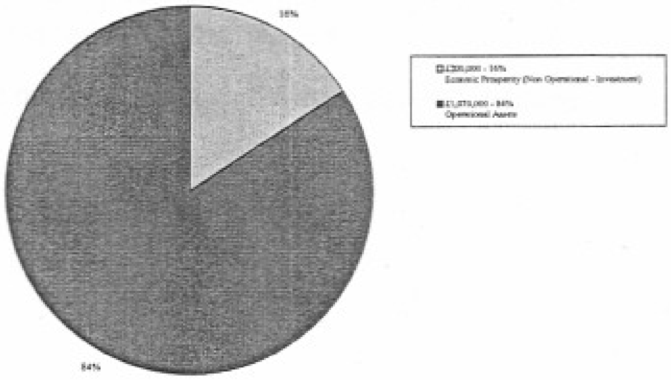
ASSET PORTFOLIO



Corporate Plan Theme	Communities	Economic Prosperity		TOTALS
	Infrastructure			
	Celebrating Carlisle Health & Wellbeing			
Asset Type	Operational	Non-Operational	Surplus	
Asset Lots	50	44	38	132
Income (£)	£1.1 M pa	£3.9 M pa	£16,400 pa	£5 M pa
Value (£)	£18 M	£61.3 M	£5.3 M	£84.6 M
Liability	£3 M	£15 M	£10,000	£18M

3.2 Further analysis shows that asset investment is wholly dis-proportionate to value and income generated:

ASSET INVESTMENT FUND



3.3 In other words, although 72% of this Council's property portfolio are assets based upon original economic development policies – and despite such assets now bringing in more money than Council tax – such assets receive only 16% of the capital investment programme. Indeed, until 2003, such assets only received 2% capital investment.

3.4 The majority of the capital investment – 84% - (and until 2003 – 98%) is invested in only the remaining 24% of operational assets.

3.5 Because this situation has arisen, the build up of repairs required – particularly on the industrial estates – has become acute. Like a house, if they are not repaired, liabilities will become large. In the case of income producing assets – the rents will eventually fall significantly – whilst private sector investment to create jobs will also dwindle.

3.6 This situation is redeemable with a different capital investment programme and rental regime change.

4. A NEW APPROACH

4.1 The Council needs to be very careful that its policies reflect the strengths and weaknesses of Carlisle's property market. A hard line private sector approach would mean a major and immediate loss of significant rental income and a loss of local control of assets. All success would be dependent upon the willingness and wherewithal of the private sector.

4.2 It is recommended that the Council, to make its property assets work, needs to embrace a more proactive ethos, but in a mixed economy solution which maximises the strengths of the local economy and minimises the potential threats. The debate is how the Council should manage and develop its assets – and whether the Council really believes such assets are important to the long-term economic vitality of Carlisle.

4.3 A more proactive partnership approach is to be recommended. Resources and mechanisms to facilitate action including the capability to sell, buy and invest in property within an overall policy will need to be considered. The Council will need to act as an enabling developer with considerable private sector style of freedom to operate and resources to match within a policy that brings into the corporate fold the industrial estates in the same way that it manages The Lanes. This type of option needs to be explored in detail and a carefully thought through policy then recommended to the Executive for further consideration.

4.4 The recommendations in this report, if adopted, open up the way for this new route map.

5. A PROPOSED A TO Z ROUTE MAP

ASSET MANAGEMENT A to Z ROUTE MAP 2002 - 2020		
2002	**2003 – 2015**	**2020**
POINT A	Development + → Investment	POINT Z
A mishmash of assets – some very good / some very poor. ↑ Unsustainable Economic + Financial Position	↑ Economic Development	Fewer but higher quality income generating assets. ↑ Sustainable Financial Position

Point	Factor	Landmarks
Point A	Audit Commission Best Value Review 2002	Judged the Council unlikely to improve.
	Asset Management Plan 2002 & 2003	Judged good
Point B	Asset Investment Fund created	% of receipts retained
	Surplus Land policy agreed	£500,000 target achieved
	Database	Acquired
	Fundamental Economic Review	Consultants appointed
Point C	Recommendations in this report	Decision awaited
	Asset Investment Fund enhanced	All receipts / new income retained.
	New Policy	To be written and recommended
	Site by Site appraisals	To be undertaken
Point D to P	This would involve various things, including • Background analysis. • Options. • Strategy • Action plan. • Funding mechanism	Dependent upon site by site appraisals to agree strategy.

Point	Factor	Landmarks
Point R to Z	Creating assets like The Lanes, which become sustainable.	Quality jobs. Better environment. Significant rental income increase.

6. OPTIONS

Proactive	Reactive
Property will assist economic development and financial stability if sustainable, eg The Lanes, Westlakes at Whitehaven, Townfoot at Brampton.	Property will become a liability and, over time, stop economic development, eg Willowholme, Durranhill, signs of decline at Kingstown, the Council's former housing stock.

7. RISK MANAGEMENT ASSESSMENT

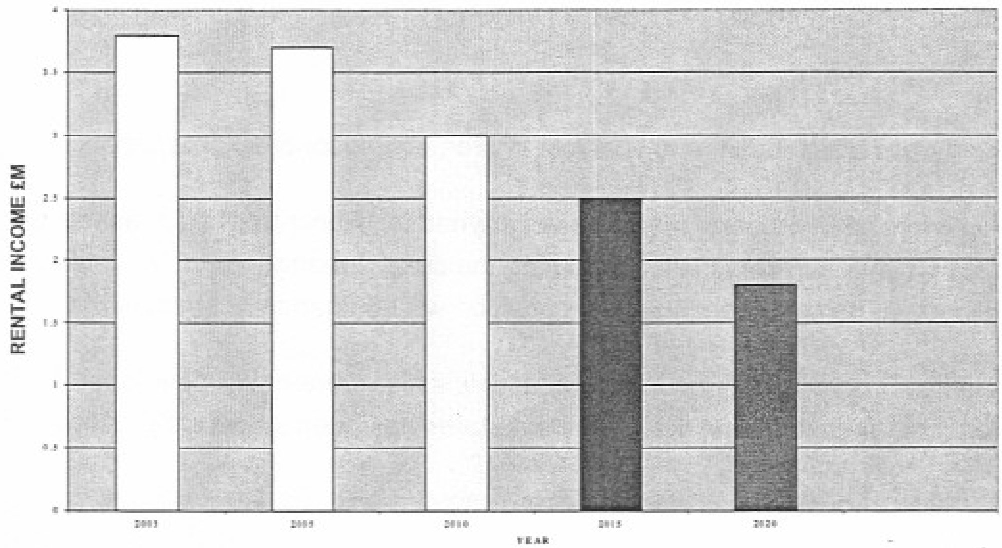
7.1 The Consultant's report C, states:

"The 'do nothing option' must be regarded as likely to put at risk the continued economic prosperity and growth of the City. Driven primarily by the need to generate income to support the Council's finances, this "head in the sand" approach will result in mounting problems and decreased Private Sector investment".

(Lamb & Edge / Carigiet Cowen – 2003)

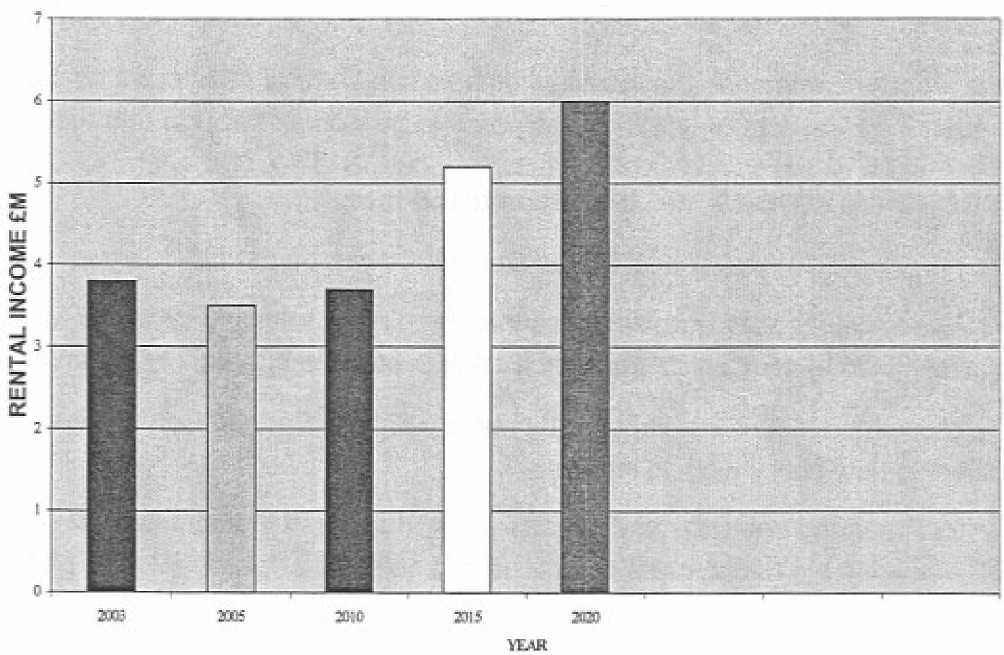
7.2 If the Council does not agree all the recommendations in this report, the rental income from the property portfolio will fall. This can be shown on the graph below.

INCOME PROJECTION - DO NOTHING POLICY



7.3 If the Council agrees a more proactive policy, rental income will show a fall to begin with, and then increase substantially over time.

INCOME PROJECTION - PROACTIVE POLICY



7.4 These graphs are indicative only because further work is now required before a new policy is recommended.

8. CONSULTATION

8.1 There has been significant public consultation with the business community in the preparation of the reports by Lamb & Edge / Carigiet Cowen. This process was entirely independent of the Council, managed by the consultants. Members are advised to carefully read what business stakeholders are saying.

9. CONCLUSIONS

9.1 Property has a significant and vital role in promoting economic prosperity.

9.2 The primary retail property market is very dynamic. Rents from such assets are used to finance Council running costs. Assuming the current management, maintenance and development policy is continued, this position will be financially sustainable.

9.3 The difficulty comes with the industrial assets which were never developed to become income generators. Investment in the industrial estates has been inadequate over a long period.

9.4 The Carlisle industrial and office market is not dynamic, so using rents to finance Council running costs drains the assets. This drain, through time, creates a self perpetuating atmosphere and environment, so that businesses stop investing in the upgrade of facilities – which has a fundamental affect on the economic performance of Carlisle.

9.5 This position is redeemable through capital investment and a change of attitude about property income.

9.6 This report recommends the industrial estates can be brought into the corporate fold to support the local economy with a new policy to be worked through and resources to match.

10. RECOMMENDATIONS It is recommend that:

10.1 The reports written by Lamb & Edge / Carigiet Cowen be noted;

10.2 The Executive formally acknowledges that there is a continuing rationale for the public sector to be involved in the Carlisle property market in order to further City Vision objectives;

10.3 The recommendations as prepared by Lamb & Edge / Carigiet Cowen be approved in principle subject to new policy work to include:

(1) Preparing one clear and concise policy document that clearly links to property ownership to corporate objectives and sets out a flexible 10-year plan for the portfolio;

(2) Agreeing that for the non-operational portfolio, economic development is the primary reason for ownership;

(3) Appraising options on an estate by estate basis to ascertain the best route to pursue in order to achieve and support economic development;

(4) Confirming an immediate ring-fencing of all new property income and capital receipts to be retained only for re-investment in the portfolio;

(5) Investigating the delivery of a public sector led central office park location to attract private sector development, which will both slow down the drift of occupiers to out-of-town sites and attract new office-based employment to the City.

10.4 Resources totalling £50,000 be approved to undertake the policy and appraisal work during 2003/4 and 2004/5.

11. REASONS FOR RECOMMENDATIONS

11.1 To implement the principles adopted in the Council's Asset Management Plan (as outlined at page 19).

1.	Compile basic information on each asset – who occupies it, what is it, how big is it etc.	Sep 03 – April 04
2.	Await Consultant's final reports (Economic Research Paper).	June 03
3.	Prepare our implementation plan, ie what de we want to do.	July 03
4.	Seek support of colleagues through individual discussions and then collectively through DAG.	August 03
5.	Brief Members.	August 03
6.	Seek approval to future plan. Once we know the Council's position we can then prepare an action plan for the asset re-investment fund and its attitude and policy concerning acquisitions to support policy.	September 03
7.	Lanes / Market Hall consolidation	June 03 – July 04
8.	Kingmoor – shares	June 03 – July 04
9.	Strategic Acquisitions – such as car park to rear of CG Ford	June 03 – ongoing

11.2 To implement the principal priorities for the Property Service as outlined in the Corporate Plan:

Quality of Life Objective:

EP 1 In partnership, develop, support and modernise the local economy

• Establish whether the Council's land ownership policies support local investment and business development.	Conduct a review of policy and recommend any changes by March 2003.	Implement recommendations beginning 2003-04	Property Services & Head in conjunction with Economic & Community Development Services
• Investigate and develop ways to use the Council's property assets to support regeneration, economic development and other objectives in the Corporate Plan.	Identify assets in key areas by Dec 2002 and link to opportunities in relevant Action Plans and regeneration Strategies (eg. City Centre, Longtown MTI Action Plan)	Prepare to implement projects where the Council owned property can be used to achieve Action Plan Outcomes.	Property Services in conjunction with Economic & Community Development Services.

• Review the Council's economic and financial aims for property in one consistent policy expression.	Prepare draft policy for consultation march 2003.	Adopt policy if approved – June 2003.	Property Services.

Council Management Objective:

CM 7 To effectively manage our resources strategically through 3 year financial planning

• Investigate capital investment to ensure the sustainability of assets for both the Council and business stakeholders.	Create sustainable assets over a 20 year period.	Obtain capital receipts from surplus sites to be directed into reinvestment.	Property Services.
• Maintain the fabric and worth of the City's property assets through a programme of asset maintenance.	Improve the condition category of 10% of the portfolio by March 2003.	Improve the condition category of 10% of the portfolio on a year on year basis.	Property Services in conjunction with Commercial & Technical Services.

12. IMPLICATIONS

STAFFING / RESOURCES : The Property Services staff shortages are well documented but a new policy will have corporate implications for colleagues in Finance, Legal, Economic & Community Development and Commercial and Technical Services. An alternative, private sector approach would mean a major loss of its property income.

FINANCIAL : Property is owned by the private and public sectors for two reasons:

- To service objectives.
- To create income and profit.

Presently, owning property is a very good way of creating long-term income. The rate of return from investment is buying and renting out property is very good (about 12%) compared to the money markets (about 3%). If developed and invested in, the Council's property ownership (such as The Lanes) can provide a sound long-term investment. Members have already established the principle of the Asset Investment Fund and this report seeks to enhance resources for this approach.

The Head of Finance comments are:-

- ➢ The principles set out within this report have major financial implications for the Council, whichever route is chosen.
- ➢ The consultants have advised that the 'do-nothing' approach puts at risk both the economic prosperity and growth of the City and also the income stream from industrial estates upon which the Council is heavily reliant. The income from industrial estates has been rising at a steady pace year on year, and the current Medium Term Financial Plan projections are based on the assumption that this will continue to be the case.

- In terms of the Recommendation 2, accepting the principle that economic development is the primary reason for ownership of non-operational assets will have a significant effect on the revenue income stream. For instance, sales of freeholds which although good for economic development and which would bring in a capital receipt, will have a negative effect on the revenue budgets.
- Likewise, Recommendation 4 i.e. accepting the principle of ring-fencing all new property income and capital receipts to be retained only for reinvestment in the portfolio will have major implications on the Council's other aspirations. Currently the Council's capital budget assumes that £500,000 per annum will be generated from sales of land and property (excluding Right to Buy sales) and this is used to support the overall capital programme. The Asset Investment Fund has been allocated £200,000 per annum of this, subject to the receipts actually being achieved. The current reliance on the generation of capital receipts to support the overall capital programme will be reconsidered in the light of the new Prudential Code system, for which draft regulations have recently been received for consultation, and which may be in place as early as April 2004. However, it must be considered unlikely given the impact of external borrowing on the Revenue account that there will be a substantial effect of the new regulations on the capital programme.
- Whilst not disagreeing with the sentiment of the principles, the detail of the effects that they would have need to be considered in more detail, and the decisions would be better made in the light of the policy and appraisal work which is being recommended to be undertaken.
- The policy and appraisal work requires a one-off sum of £50,000 to complete, and this would need to be approved by Council as a one-off supplementary estimate which could be met from the improved Councils balances following the savings which occurred in the 2002/03 accounts.

LEGAL : Consulted.

CORPORATE: The implications for City Vision are considerable.

RISK MANAGEMENT: Incorporated.

EQUALITY ISSUES : Decent office and industrial development with properly designed accommodation is clearly going to further these issues.

ENVIRONMENTAL : The environment in which businesses grow is critical to the success off Carlisle as a regional capital. The industrial estates are in acute need of long-term investment to create confidence.

CRIME & DISORDER : Well managed and developed assets reduce crime and create the appropriate atmosphere to breed better patterns of behaviour.

A

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CARLISLE'S COMMERCIAL PROPERTY MARKET

A REPORT TO CARLISLE CITY COUNCIL

Lamb & Edge
CHARTERED SURVEYORS

Carigiet Cowen
Chartered Surveyors

CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Lamb & Edge and Carigiet Cowen are commissioned by Carlisle City Council to prepare a report on the commercial property market in Carlisle.

This report, undertaken in the first quarter of 2003, is intended to outline market conditions and to define the key land and property issues.

CARLISLE'S CITY CENTRE RETAIL MARKET

Background

- Carlisle City Centre functions as a sub-regional shopping centre.
- The City Council initiated The Lanes Shopping Centre in the early 1980's which was extended in 2000.

Supply

- There is presently a shortage of available retail units suitable for national chains within the central shopping core.

Demand and Take-Up

- Although The Lanes extension was completed in October 2000, it has taken a further 2 years to let the remaining mall units. We understand the latter lettings were heavily incentivised.
- Reflecting national demand trends, requirements for large space in fringe-of-prime locations remains high.

Opportunities, Key Issues and Outlook

- The central shopping area is now starkly polarised into prime and secondary pitches. Having struggled to let the last units in The Lanes extension, the City faces a period of consolidation.
- Development in the foreseeable future is likely to be piecemeal as opportunities arise.
- The Old Gaol site at the top end of English Street, is a possible medium to long-term redevelopment opportunity.
- Tesco's proposals for a new store on the fringe of the city centre are of concern to retailers, particularly if the size of the building is increased in order to expand the non-food element of the store.

CARLISLE'S OUT-OF-TOWN RETAIL MARKET

Background

- Carlisle does not have a dominant retail park. Instead it comprises a mix of small parks, piecemeal developments, and solus sites.

Supply

- Supply of out-of-town retail is severely constrained by planning.

Demand and Take-Up

- We are aware of circa 7,500 sq. m. of non-food retail demand.

Food Retailing

- In the central retail area there is no substantial food provision. Outline planning consent has now been granted to Tesco for a supermarket on the Viaduct site.
- Having already achieved approval to extend its out-of-town store, Tesco are presently pursuing a further planning application in respect of the Viaduct site. This would no doubt facilitate a far greater range of non-food product lines.
- Out-of-town food provision is met by three major retailers; Tesco just off the A69 at Rosehill, Asda just off the A7 at Kingstown and Morrisons off the A7 trunk road at Stanwix.

Key Issues and Outlook

- Retail warehousing in the City Centre is very fragmented. Travelling from one scheme to another for comparison purposes can be frustrating for shoppers.
- Non-food retailers have a strong preference for prominent locations which are easily accessible to their customers who are generally car-borne.
- The sequential test imposed by PPG6 is making it increasingly difficult to identify sites that fulfil both retailers' and planners' criteria.
- City centre retailers will be concerned about the potential increase in non-food floorspace which Tesco are proposing at the Viaduct site.
- The outlook is for slow change as out-of-town retailers struggle against national planning policies.

CARLISLE'S COMMERCIAL LEISURE MARKET

Background

- Carlisle's commercial leisure caters for the resident population, the more transient student population and the tourist trade.
- The private sector leisure provision is dominated by large leisure groups and major breweries who provide hotels, pubs and night-clubs, together with bowling alleys, cinema and bingo facilities.
- The City and its immediate environs are reasonably well served with hotels and guest houses although there is a notable shortage of accommodation at the top end of the market.
- The nature and type of hotel accommodation available reflects the generally short duration of stays.

Supply

- Following the decline of Botchergate as a retail pitch, the City Council have actively sought to regenerate the area for leisure.
- Developments in Botchergate will concentrate commercial leisure activity in this part of the City Centre forming a distinct leisure quarter.

Demand and Take-Up

- Recent leisure developments in the city represent a substantial surge in commercial activity.

Commentary and Key Issues

- Botchergate is now firmly established as the major commercial leisure area serving the City Centre.
- The majority of the population deserts the central area after 6 p.m.
- Further development in the hotel sector is very largely dependent upon Carlisle's development as a tourist destination.
- There are concerns about the continued viability of two cinemas in the city.
- In order to prolong the stay of visitors in Carlisle, it will be necessary to promote additional visitor attractions and cultural facilities to supplement the existing provision.

CARLISLE'S INDUSTRIAL MARKET

Supply

- The market is relatively undynamic in the sense that much of the supply is triggered by a "needs must" philosophy.
- Carlisle's industrial supply is dominated by Kingmoor Park which represents over two-thirds of the currently available supply.

Proposed Developments

- New developments are focused on the better locations where schemes are necessarily bespoke rather than speculative.
- Kingmoor Park offers a large amount of refurbished and unrefurbished buildings on flexible terms and at low rentals. It is therefore difficult to see any significant speculative development coming forward for some considerable time, unless subsidised by the public sector.

Land

- Available unemployment land is now mainly confined to the northern part of the city, where sites are available at Parkhouse and Kingmoor Park.

Demand for Buildings

- We estimate that an average of 10,000 – 15,000 sq. m. of industrial buildings leave the market each year.

Demand for Land

- During the period 1976 to 1992 approximately 97.5 ha. (an average of approximately 6 ha. per annum) was developed. This declined between 1993 and 1999.
- Since 1999 take-up has recovered.

Enquiries

- With few exceptions, most of the demand for space is from within Carlisle.
- Footloose occupiers and inward investors are rarely attracted to Carlisle.

Small and Medium Enterprises (SMEs)

- Carlisle suffers from a low business birth rate.
- Incubator developments enjoy a high level of occupation.

Key Issues and Outlook

- The industrial market is suffering from an oversupply of industrial buildings, the majority of which are second-hand buildings.
- Most of Carlisle's employment land is located at the northern end of the City.
- There is some uncertainty in the market as to the long-term effects of Kingmoor Park and in particular to the amount of poor quality space that is available for letting.
- There has been resistance to the City Council's standard form of 99-year ground lease.

CARLISLE'S OFFICE MARKET

Supply

- At the present time, there is very little office space available in the city.

Demand

- Demand for office space in Carlisle is almost all generated by: central and local government; health organisations; financial sector; professional firms; agencies spun out of the public sector and education.
- We estimate an annual average of 2,000 – 4,000 sq. m. of office properties leaving the market in recent years.

The majority of office requirements are for small suites or buildings.

Key Issues and Outlook

- There is continuing demand for well located, modern, good quality office space with on-site car parking.
- The level of values achievable, combined with unpredictable demand, make speculative development very difficult to justify.
- Kingmoor Park has the potential to become a dominant office location in the city.
- There are a number of potential out-of-town schemes for new build office floorspace in the pipeline.
- The new Capita building at Kingmoor will accommodate various departments which will be relocating from existing property in the city. There is some danger of the market becoming flooded if all of this stock becomes available at one time.

- The drift of office occupiers from the city centre to the fringes is largely due to the lack of a defined town centre or fringe-of-centre office campus location.

CONCLUSIONS

- In **retailing** terms, Carlisle is a popular and vibrant city centre which is fulfilling its role as a sub-regional shopping centre. The city's remoteness from other centres represents a strength in retail terms as competition is limited.

- Carlisle's **leisure** market has tracked the City's success in the retail market and reinforced its appeal as a tourist destination.

- Both sectors generate high rental and capital values which enable the market to respond to operators' needs relatively quickly.

- Generally both sectors of the market are functioning efficiently and values are adequate to drive change through private sector development.

- Carlisle's remoteness limits the potential of its **industrial** market.

- The quality of industrial stock is relatively poor. New development is limited to bespoke buildings as speculative development is too risky and values are low. Without public sector intervention new speculative industrial development will continue to be unlikely.

- The supply of both development land and industrial buildings is dominated by Kingmoor Park. It has a potentially dangerous hold over the industrial market.

- The Carlisle Northern Development Route could open up new employment sites to the west of the city, including Morton.

- The more mature industrial estates in Carlisle are suffering from a lack of investment, particularly in infra-structure and maintenance. The decline of these estates is being accelerated by a lack of investment by occupiers. The Council's resistance to disposing of freeholds has worsened the situation.

- Carlisle's **office** market appears underdeveloped for a city of its size. While other regions have seen job losses in the manufacturing sector offset by growth in the service sector, this has not been the case in Carlisle.

- Carlisle's office market tends to rely on pre-let development as values are not sufficiently high to make speculative development viable. It is clear therefore that Carlisle's office market is failing.

- Office development would widen the economic base and increase the skill base of the City.

- The limited amount of office development undertaken in recent years has been on out-of-town locations. This drift has been accelerated by traffic congestion and car parking problems.

- The relative weakness of Carlisle's commercial property market, with its low values and slow growth, will not support ambitious, trail-blazing schemes. Only with the encouragement and assistance of the Public Sector, particularly the City Council, can these schemes be realised, giving Carlisle a competitive edge and a dynamism which will lead to economic growth.

1.0. INTRODUCTION

1.1. Lamb & Edge and Carigiet Cowen are commissioned by Carlisle City Council to prepare a report on the commercial property market in Carlisle.

1.2. This report, undertaken in the first quarter of 2003, is intended to outline market conditions and to define the key land and property issues. This will enable the Council to consider the rationale for intervention related to land and property. The report will inform the asset management plan process and contribute to the review of the Local Plan.

Carlisle

1.3. The City is the administrative centre and county town of Cumbria. It is the most northerly of Cumbria's six districts and is located in the north-west corner of England. Carlisle City Council's administrative area covers 1,040 sq. km. and is bounded by the Scottish border to the north, Northumberland to the east, Allerdale and Solway Firth to the west and the Lake District to the south.

1.4. Carlisle is remote from other main centres of population, being 300 miles from London, 96 miles from Glasgow and Edinburgh, 119 miles from Manchester and 57 miles from Newcastle-upon Tyne, the nearest large urban areas.

1.5. The District is centred around the City of Carlisle, Cumbria's largest urban settlement, which accounts for the majority of the District's population. Population density in the District is low at 98 persons per sq. km. with 27% of its population living in rural areas.

1.6. Carlisle is the regional commercial, administrative, retail and tourist centre, serving a catchment population of around 450,000 who live within 1 hour's travelling time.

2.0. CARLISLE'S CITY CENTRE RETAIL MARKET

Background (See Plan 4)

2.1. Carlisle City Centre functions as a sub-regional shopping centre which grew up around the A6 and its linear nature is still evident today. Consequently, until the early 1980's, shopping in the City Centre was somewhat fragmented, stretching from Scotch Street in the north to Botchergate in the south, a distance of over 1 mile. With the exception of a number of substantial buildings on English Street, the majority of retail units were relatively small and of poor quality construction.

2.2. Responding to occupier and developer pressure, the City Council initiated The Lanes Shopping Centre in the early 1980's. The size of the scheme was limited to under 25,000 sq. m. in order to protect Botchergate, at that time a strong secondary retail pitch. It consolidated the prime retail area of the City within the scheme itself and embraced English Street and Scotch Street. This had the effect of pulling the main shopping core north, and leaving Botchergate in isolation.

2.3. The northern part of English Street is pedestrianised and is regarded as the prime retail street within the central area where many of the major large-space multiples have representation including Marks & Spencer, W H Smith, Boots and House of Fraser department store.

2.4. Scotch Street, which is also pedestrianised was, until relatively recently, regarded as a more secondary retailing area. It has however improved and is now established as a prime retail location with occupiers including Mark One, Index, McDonalds and Ottakars.

2.5. The Market Hall, located to thè northern end of Scotch Street, was constructed at the beginning of the 20th Century but was comprehensively refurbished in the late 1980's to provide a regenerated market stall area. The scheme's small unit shops were subsequently demolished in order to create two large space units for Wilkinson and T K Maxx.

2.6. As a result of the development of The Lanes, secondary retailing became clearly identifiable in the core area, and has remained largely unchanged to the present day. The significant areas include Lowther Street, Devonshire Street, Bank Street, Castle Street and Fisher Street.

2.7. In October 2000, an extension to The Lanes shopping development was completed providing an additional 18,580 sq. m. of retail space anchored by a new Debenhams department store. The extension of The Lanes by the City Council with its partners Aviva and Morley Properties, has reinforced the shift north of the City Centre's retailing resulting in a decline in demand for units at the southern end of English Street and Devonshire Street.

Supply

2.8. There is presently a shortage of available retail units suitable for national chains within the central shopping core, and in particular in the prime area. This follows lettings of the last remaining mall units in The Lanes extension. Vacancies are therefore at a very low level. There are no significant retail Planning Permissions existing and not yet implemented in the City Centre.

2.9. On Scotch Street, a redevelopment scheme providing circa 836 sq. m. of retail space, has substantially gone under offer to a single large space operator. A single unit of circa 140 sq. m. remains. The former Index unit on Scotch Street (333.20 sq. m.) has recently gone under offer to a discount retailer, leaving only one small unit (51 sq. m.) available on Scotch Street.

2.10. At present, with the exception of one unit, English Street is fully occupied. In the secondary areas, there are a few small lock-up units, suitable for local/regional retailers, available.

Demand and Take-Up

2.11. Although The Lanes extension was completed in October 2000, it has taken a further 2 years to let the remaining mall units. We understand the latter lettings were heavily incentivised. The marketing strategy was aimed to attract national multiple fashion retailers to the centre and that has been achieved successfully.

2.12. On English Street, there has been little turnover of occupiers during the last few years. Scotch Street has been the most significant area of change with Littlewoods acquiring the former C&A store, Music Zone taking the former F.A.S unit and Ann Summers occupying the unit vacated by Clinton Cards.

2.13. Reflecting national demand trends, requirements for large space in fringe of prime locations remains high. This can be broken into two elements: discount traders seeking low cost units circa 370 – 930 sq. m. and secondary retailers seeking units of 110 – 185 sq. m. in good peripheral locations, at low rental levels. There remains significant demand from well established local traders wishing to relocate to larger/higher profile units of circa 46 – 70 sq. m. in fringe-of-town locations.

Rents

2.14. Essentially, values in the central retail area fall clearly into prime and secondary with markedly different rental values achieved and little evidence of any tapering effect. English Street maintains the highest rental levels which have established Zone A rates of £1,237 per sq. m. The perception in the market is that £1,237 per sq. m. is a realistic prime Zone A rent, which has been achieved in a recent lease renewal.

2.15. The prime part of The Lanes has established Zone A rents of £1,076 - £1,130 per sq. m., however, we believe that a number of the later lettings in Phase 2 of the scheme were heavily incentivised. Scotch Street is the only pitch where there has been a significant change along its length. However, elsewhere on the street, Zone A rents fall as low as £431 per sq. m. where local traders dominate.

2.16. The secondary retail areas of the City Centre have the following established Zone A rents:

Bank Street	£430 - £484	per sq. m.
Devonshire Street	£376	per sq. m.
Fisher Street	£323 - £430	per sq. m.
Castle Street	£323 - £430	per sq. m.
Lowther Street	£161 – 430	per sq. m.

Retail Investment

2.17. Retail properties within the prime core are principally in the ownership of institutions, property companies and trusts. The largest freeholder and most active institution in the city is Morley Properties, the property fund manager for Aviva. Aviva own the controlling interest (the Council being the other interest) in The Lanes Shopping Centre and also a number of prime retail units fronting English Street and Scotch Street.

2.18. Larger prime retail units or parades still attract interest from institutional investors mainly based in Scotland. The London-based institutions largely overlook Carlisle, due to its isolated position and travel time from the capital. Disappointing rental and capital growth and worries over the vulnerability of the local economy, due to lack of diversity, have also deterred institutional investors.

2.19. More secondary positions provide smaller investments which continue to attract property companies.

2.20. The majority of the prime area is institutionally owned and investment yields range from 6% – 7% in the prime area. Yields in the secondary areas range from 8% - 10%, depending upon the strength of the pitch, quality of tenant and lease terms.

Opportunities, Key Issues and Outlook

2.21. The central shopping area is now starkly polarised into prime and secondary pitches, with the exception of Scotch Street, where values taper towards its northern end. Having finally let the last units in The Lanes extension, the City faces a period of consolidation until demand again outstrips supply.

2.22. The majority of units in English Street and The Lanes are now too shallow and small to fulfil the larger space requirements of prime national multiple retailers. Development in the foreseeable future is likely to be piecemeal as opportunities arise.

2.23. Although there is evidence of demand from discounters, the stock in secondary areas is too small to meet their requirements. Many of the properties are located in the Conservation Area and some are individually listed making expansion or refurbishment difficult.

2.24. The Old Gaol site at the top end of English Street, is a possible medium to long-term redevelopment opportunity. The whole of this site is believed to be leased from the City Council on a ground lease that has only some 30 years unexpired.

2.25. Due to physical constraints, expansion of the central area is difficult. The core area is bounded to the east by Georgian Way, to the west by Castle Way and the City walls, and to the south, Botchergate, now firmly established as a leisure area. Expansion realistically therefore would only be achievable to the north to embrace the Fire Station, Police Station, Magistrates Courts and Civic Centre. At the northern end of Lowther Street, the surface car park would provide a suitable development site particularly to meet the demand of large-space discount operators.

2.26. Tesco's proposals for a new store on the fringe of the city centre are of concern to retailers, particularly if the size of the building is increased to 6,500 sq m in order to expand the non-food element of the store.

3.0. CARLISLE'S OUT-OF-TOWN RETAIL MARKET

Background (See Plan 2)

3.1. Carlisle is unusual for a settlement of its size, in that it does not have a dominant retail park. Instead it comprises a mix of small parks, piecemeal developments, and solus sites spread around the City. Retail warehousing grew in Carlisle from trade centre locations predominantly to the south of the City Centre and in particular around the Lancaster Street, Currock Road/Crown Street area.

3.2. Following the development of some stand alone stores for bulky goods, the first purpose-built retail park, extending to 6,915 sq. m., was Greymoorhill, which was opened late in 1987 and is located approximately 3 miles north of the City, adjacent to Junction 44 of the M6/A74 motorway. Now re-named Kingstown Retail Park, the current occupiers are PC World, Homebase, Currys, Comet and Allied Carpets.

3.3. In Autumn 1989 St. Nicholas Gate Retail Park, extending to 10,685 sq. m., was completed. The park is located on London Road, approximately 1½ miles south of the City Centre. The current occupiers are Carpet Right, Focus, Netto, MFI, Burger King and Brantano.

3.4. Station Yard Retail Park was completed late in 2000 and extends to 5,322 sq. m. let to Staples and Matalan. The development is located on James Street approximately ¼-mile south of the central area.

3.5. The above three parks comprise the only designated retail parks in the City. There are three principal solus sites occupied by Wickes at Hardwick Circus, Vaseys at Lancaster Street and Gallerie International/B & Q at Currock Road.

Supply

3.6. With the exception of the MFI unit extending to 1,394 sq. m. at St. Nicholasgate, we are not aware of any retail warehouse units currently available within the City boundaries. PPG6, the Government's planning guidance on town centres and retail development, heavily flavours in-town schemes. The supply of land and buildings out of town is therefore severely restricted and will continue to be so for the foreseeable future.

3.7. Planning consent has been granted for a retail warehouse unit for DFS on a solus site at Hardwicke Circus. Planning consent exists for 5,574 sq. m. of retail warehousing at Charlotte Street, of which 1,858 sq. m. has the benefit of food consent, the remainder is restricted to non-food bulky goods. Charlotte Street is located approximately ¼-mile south-east of the city centre, but suffers from poor vehicular access from other areas of the city.

3.8. Planning consent has been granted to Stainsby Grange on the Bendalls Engineering site at London Road. The site lies approximately 1½ miles south of the city and the proposal is for a 9,290 sq. m. non-food superstore, with associated garden centre. The owners of St. Nicholasgate are seeking to re-configure part of the scheme to provide slightly smaller units to meet perceived demand for space.

Demand and Take up

3.9. On completion of the Station Retail Park in 2000, only Staples had agreed a pre-let. The remaining units were subsequently let approximately 18 months later to Matalan, following a lengthy planning battle.

3.10. Although we are aware of circa 7,500 sq. m. of non-food retail demand, this cannot be accommodated at Charlotte Street due to the bulky goods restriction on the non-food units. The majority of outstanding non-food demand is for units of 465 – 929 sq. m. located in prominent sites with good road links north, south or east of Carlisle.

Rents

3.11. Retail warehousing rents in the City have until relatively recently been maintained at low levels in comparison with cities of similar size. The 1999 rent reviews on St. Nicholasgate established a rate of £108 per sq. m. for standard units and under £100 per sq. m. for the larger Focus unit.

3.12. Rent reviews are currently in hand at the Greymoorhill Retail Park. The review on the Homebase unit with effect from 25th December 2002 has been settled at £134.55 per sq. m. The unit extends to approximately 3,855 sq. m.

3.13. Rents achieved on the solus sites within the City are slightly lower than on the established retail parks. The review on Wickes at Hardwicke Circus was agreed late 1999 at £99.57 per sq. m.

Investment Yields

3.14. There has been very little recent investment activity in the retail warehouse sector. We would anticipate a net initial yield for a prime retail park to be in the region of 6½% - 7% and for a well let small cluster or solus unit around 7% - 7¼%. Irrespective of genuine rental growth prospects, the retail warehouse sector is popular with investors generally as it tends to offer longer and more securely let stock which consequently attracts premium prices.

Food Retailing

3.15. In the central retail area, with the exception of a small Tesco and Marks & Spencer Food Hall, there is no substantial food provision. However, outline planning consent has now been granted to Tesco for the development of a supermarket on the Viaduct site on the western edge of the central area.

3.16. In response to a more difficult planning regime, food retailers have developed a small store format. This will be rolled out by the supermarket chains to increase representation and maintain growth. Large stores are, however, the retailers' preferred format incorporating a substantial non-food element.

3.17. Having already achieved approval to extend its out-of-town store, Tesco are presently pursuing a further planning application in respect of the Viaduct site to increase the floorspace of the store from approximately 3,700 sq. m. to approximately 6,500 sq. m. This would no doubt facilitate a far greater range of non-food product lines.

3.18. Out-of-town food provision is met by three major retailers; Tesco just off the A69 at Rosehill, Asda just off the A7 at Kingstown and Morrisons off the A7 trunk road at Stanwix. It is understood that planning consent has been granted to Tesco to extend their store by approximately 1,100 sq. m., subject to a Section 106 Agreement. Discount food retailers in the edge of town locations include Netto at St. Nicholasgate, Aldi on Scotland Road and Kwik Save on Wigton Road. These stores are typically of 1,200 sq. m. and although conversions were common in the early days of food discounting, new build stores are now the norm.

Key Issues and Outlook

3.19. Retail warehousing in the City Centre is very fragmented and due to the weight of traffic and configuration of the central road network, travelling from one scheme to another for comparison purposes can be frustrating for shoppers.

3.20. Non-food retailers have a strong preference for prominent locations which are easily accessible to their customers who are generally car borne. London Road Retail Park is a good example of this. Car parking is also an essential element.

3.21. The sequential test imposed by PPG6 is making it increasingly difficult to identify sites that fulfil both retailers' and planners' criteria. In Carlisle most potential sites either fall within the edge-of-town or out-of-town categories. Added to this conflict, Local and Structure Plan allocations for these sites are frequently for employment use. Furthermore PPG13 seeks to reduce car journeys, a policy which has led to planners seeking a reduction in car parking provision for retailers outside the central area.

3.22. City centre retailers will be concerned about the potential increase in non-food floorspace which Tesco are proposing at the Viaduct site. This is likely to have an impact on trade in the city centre and given the purchasing power of Tesco, smaller independent retailers will find it difficult to compete.

3.23. The outlook is for slow change as out-of-town retailers struggle against national planning policies aimed at protecting and reinforcing city and town centres.

4.0. CARLISLE'S COMMERCIAL LEISURE MARKET

Background

4.1. The City's leisure facilities can generally be broken down into two categories, being public sector operated facilities and private sector commercial leisure provision. It is the latter upon which this report is focused.

4.2. Carlisle's commercial leisure offer caters for the resident population, the more transient student population and the tourist trade.

4.3 Most commercial leisure facilities rely for business on the resident and student population as trade from tourism is seasonal and can be more volatile.

4.4. Tourism has nevertheless been increasingly important to the City as it has capitalised on its unique position close to both the Lake District and south-west Scotland. The City's strong retail offer and historic buildings combine to attract tourist trade which now contributes some £90 million to the local economy.

4.5. Typical of this is the growing number of privately owned gymnasia and health and beauty facilities located on the fringe of the City Centre and in the suburban areas. Additional health club facilities are provided at a number of the city's hotels. This sector has seen considerable growth over the last ten years but is slowing down as chains consolidate and the market reaches saturation.

4.6. The private sector leisure provision is dominated by large leisure groups and major breweries who provide hotels, pubs and night-clubs, together with bowling alleys, cinema and bingo facilities. Independent operators do however account for a large proportion of the City's small businesses including pubs and guest houses.

4.7. The City and its immediate environs are reasonably well served with hotels and guest houses although there is a notable shortage of accommodation at the top end of the market (4-star and above). In the City Centre, there is the 3-star Crown & Mitre Hotel, the Central Plaza Hotel on Victoria Viaduct, the County Hotel on Botchergate and the Lakes Court Hotel in Court Square, immediately adjacent to the City's railway station. On the outskirts of the City, there is the Holiday Inn Express at Greymoorhill and on London Road, is the Swallow Hilltop Hotel.

4.8. In recent years, the City has seen improved provision of low-cost motel accommodation. There are also a number of good quality small family-run hotels, guest houses and bed and breakfast establishments in or close to the city centre. The nature and type of hotel accommodation available reflects the generally short duration of stays with guests passing through Carlisle rather than staying in the City. The Council's aspiration to attract a 4-star hotel has been hampered by this and a turbulent market affecting the whole country.

Supply

4.9. Following the decline of Botchergate as a retail pitch, the City Council have actively sought to regenerate the area for leisure purposes. The initial regeneration started when Commercial Development Projects acquired the former Cumbrian Co-op store on the western side of Botchergate and converted the building to theme and traditional pubs and a 7-screen multiplex cinema.

4.10. Following site assembly on an extensive area of land on the eastern side of Botchergate, Idiom Estates is now developing a substantial 2-storey development providing 7,525 sq. m. of bar and restaurant space, with a 102-bedroom budget hotel. Only 2 units remain available. Immediately adjacent, another private developer has commenced the construction of a 3-storey mixed use block, which will provide an additional 1,485 sq. m. of floor space for bar and restaurant use with offices on upper floors.

4.11. These developments will concentrate commercial leisure activity in this part of the City Centre forming a distinct leisure quarter.

Demand and Take-Up

4.12. Recent leisure developments in the city represent a substantial surge in commercial leisure activity. It is unlikely to continue at this level as nationally the leisure market has entered a period of consolidation.

4.13. With Botchergate essentially pre-let, overspill demand for bar and restaurant occupiers is being diverted to the adjacent development. Several bar operators will clearly prefer to take space along the established "pub circuit" around Lowther Street if suitable property becomes available.

Rents

4.14. The recent pre-letting agreements entered into at Botchergate have provided the following rental levels for leisure accommodation in the City:

Pubs	£129 - £161.50	per sq. m.
Bingo	£ 86.11	per sq. m.

4.15. The rents achieved on the Botchergate scheme are expected to set the tone for future leisure development.

Investment

4.16. Leisure investment properties have not tended to change hands frequently as many are owner-occupied. We would, however, expect yields of 7% - 8% to be achieved if a well-let leisure scheme enjoying a good location were to be sold on the open market.

Commentary and Key Issues

4.17. Botchergate is now firmly established as the major commercial leisure area serving the City Centre. Whether this will affect public houses and other leisure in the northern part of the City centre remains to be seen.

4.18. Additional health club facilities serving the south and west of the City Centre are in demand. We are aware that First Leisure have recently acquired part of the former Infirmary site on Newtown Road, and other operators remain interested in the city.

4.19. A large proportion of the population lives on the outskirts of the city and in the surrounding areas. To date, the lack of city centre living and the plentiful supply of good quality restaurants and bars in rural surroundings has led to the majority of the population deserting the central area after 6 p.m. The situation is exacerbated by the fact that most of Carlisle's cultural venues are not located in the heart of the city centre. Carlisle is not however unique in this and similar trends are common in towns and cities all over the country.

4.20. The provision of a new budget-style hotel in Botchergate is welcomed. It is understood that there is a proposal to construct a new hotel to the north of the city centre, to the west of the Post House Holiday Express Inn. This is understood to be in its early stages of consideration.

4.21. Further development in the hotel sector is very largely dependent upon Carlisle's development as a tourist destination. At present, visits tend to be of a short duration as tourists and business custom is passing through rather than staying. This is reflected in that the majority of accommodation being aimed at the budget end of the market. Higher quality accommodation, as can be seen in and around the Lake District, is proving difficult to attract. This is exacerbated by problems in the hotel industry nationally.

4.22. There are concerns about the continued viability of two cinemas in the city. There have been efforts to differentiate the offer of the smaller independent cinema, however, the City seems to have an over-provision of screens.

4.23. In order to prolong the stay of visitors in Carlisle, it will be necessary to promote additional visitor attractions and cultural facilities to supplement the existing provision. A theatre in a city centre location would greatly assist in promoting Carlisle's evening economy.

5.0. CARLISLE'S INDUSTRIAL MARKET

Background (See Plan 1)

5.1. The origins of Carlisle's industrial base lie in the Industrial Revolution and, in particular, the coming of the railways and the mills. The mills were located in the Denton Holme area of the City, along the line of the mill race which linked the River Caldew to the River Eden.

5.2. In the late 1940's Carlisle's first purpose-built industrial estates were brought on stream at Willowholme and Durranhill. They were owned and promoted by the City Council. Both of these estates were almost fully developed by the late 1960's/early1970's. Willowholme was "extended" by a private developer following the closure and substantial demolition of the former power station and its re-use for industrial premises.

5.3. In the late 1960's, the City Council commenced development of the Rosehill and Kingstown Industrial Estates, now regarded to be the most important industrial estates in the City. Both have excellent access to the M6 motorway.

5.4. The development at Rosehill was, to a very large extent, assisted by the relocation of the Auction Mart from its original site in Botchergate. Many of the occupiers at Rosehill today are linked to the mart or to the agricultural market generally.

5.5. Kingstown Industrial Estate was developed on the site of the original Carlisle Airfield. Development commenced in the early 1970's and all of the land was taken up by the end of the last century.

5.6. To the north east of Kingstown Industrial Estate and located off the old A74 trunk road is the Parkhouse Industrial Estate, while to the west of Kingstown Industrial Estate is Kingmoor Park.

5.7. Kingmoor Park was formerly RAF 14 Munitions Unit, which is now effectively in the ownership and control of Kingmoor Park Properties Limited. This comprises 160,000 sq. m. of former storage buildings and approximately 25 ha. of development land.

5.8. Since the estate came on stream some 3 years ago, 71,500 sq. m. of buildings have been let (some on easy in/easy out leases), and approximately 5 ha. of land have been put under offer. The initial success of Kingmoor Park is due largely to the immediate availability of large tranches of space at realistic rents linked to the pent-up demand created by the lack of land and buildings available for development elsewhere in Carlisle. Kingmoor Park is designated as a Strategic Regional Employment site by the Regional Development Agency (one of only two in Cumbria) and a Regional Inward Investment site in the Draft Regional Planning Guidance.

5.9. To the west of the city centre are the Newtown and Burgh Road Industrial Estates. Newtown Industrial Estate is a small development in fragmented freehold ownership. Burgh Road, which lies just to the west of Newtown Industrial Estate, was part owned by the City Council and has now been largely developed in partnership with the private sector.

5.10. Both of these estates have the disadvantage of remoteness from the motorway and trunk road network, a position that will be improved in the event of the Carlisle Northern Development Route (CNDR) being constructed (Scheduled for completion 2006).

5.11. Speculative industrial development in the City has focused on four locations, namely Port Road, Denton Holme Trade Centre, Harraby Green Business Park and James Street/Hewson Street. Port Road, which provides approximately 12,077 sq. m. of floorspace, is perhaps the best development in the city. It is a modern development located just off Caldewgate. It is in private sector ownership; a large proportion having recently been purchased by Allied Dunbar.

5.12. Generally, the city is considered to be well served with industrial premises. Durranhill, Rosehill and Kingstown Industrial Estates and Kingmoor Park all have good access to the M6. The other estates in the centre and to the west of the City centre are less fortunate and suffer access and congestion problems.

5.13. Willowholme has suffered particularly through lack of investment over the years. Low rental and capital values combined with relatively short unexpired ground leases militate against private investment.

5.14. Outside of the urban areas, three main rural industrial/employment locations in the City Council area are at Brampton, Dalston and Longtown. These estates are relatively small but play an important role in the economy of these villages. Significant occupiers include Stalkers Transport at Brampton and Nestlé at Dalston.

5.15. Another rural location with potential for significant employment use is Carlisle Airport. The airport itself was recently sold by the City Council to Haughey Airports Ltd. The airport extends to approximately 175 ha. of which 19 ha. are allocated for employment uses.

Supply

5.16. At the date of the preparation of this report, and excluding premises available at Kingmoor Park, some 39,394 sq. m. of industrial buildings are available for occupation within the urban and rural areas. The supply is predominantly older and unrefurbished accommodation, much of which has been vacant for some considerable time.

5.17. The market is relatively undynamic in the sense that much of the supply is triggered by a "needs must" philosophy, namely, buildings are provided when there is an absolute need to either expand or contract. In those circumstances, occupiers will acquire alternative premises and market their old premises.

5.18. Carlisle's industrial supply is dominated by Kingmoor Park which currently has 82,230 sq. m. available, of which a large proportion is basic and requiring refurbishment. This represents over two-thirds of the currently available supply.

Proposed Developments

5.19. Speculative development carries far greater risk and requires high values to absorb the financial impact of a protracted marketing period. New developments are focused on the better locations, such as Kingmoor Park and Parkhouse, where schemes in the pipeline are necessarily bespoke rather than speculative.

5.20. This position is exacerbated by Kingmoor Park where a large amount of refurbished and unrefurbished buildings have been made available for letting on flexible terms and at low rentals. It is therefore difficult to see any significant speculative development coming forward for some considerable time, unless subsidised by the public sector.

Land

5.21. Available employment land is now mainly confined to the northern part of the city, where sites are available at Parkhouse and Kingmoor Park.

5.22. In the urban area, the supply of land is assessed by the Council to be 117.75 ha. however, only around 49 ha. could be considered serviced and available. 33.625 ha. (69%) of this land is at Kingmoor Park.

5.23. In rural locations, the supply is assessed by the City Council to be 35.11 ha., over 50% of which is at Carlisle Airport.

Demand for Buildings

5.24. Carlisle has a relatively stable economy and does not suffer the boom and bust conditions experienced elsewhere in the country. Its relative isolation and to some extent, inward looking economy, is inclined to re-enforce this position. Although no reliable independent statistics are available for take-up, we estimate that an average of 10,000 – 15,000 sq. m. of industrial buildings leave the market each year. This estimate is drawn primarily from the experience of Carigiet Cowen over the last five years.

5.25. The owner-occupied and rental markets are almost polarised with owner-occupation being centred on the four Council-owned estates at Rosehill, Kingstown, Willowholme and Durranhill, while the rental market is focussed on Port Road, Harraby Green Business Park, and Denton Holme Trade Centre. It is also notable that the availability of premises to let is significantly biased towards town centre and fringe-of-town centre locations.

5.26. Carlisle is not a distribution location in the sense that places like Daventry, Warrington and Glasgow are. Nevertheless, logistics has become a significant floorspace occupier. It is central in terms of the UK despite being removed from main centres of population.

Demand for Land

5.27. During the period 1976 to 1992, the vast majority of employment use land take-up was on the Kingstown and Rosehill Industrial Estates. During those years, approximately 97.5 ha. (an average of approximately 6 ha. per annum) was developed. The vast majority of this development was for owner-occupation.

5.28. Between 1993 and 1999, industrial development was sporadic. Whilst another 19.5 ha. was taken up, most of this development was of a local nature on small sites, scattered throughout the urban and rural areas.

5.29. Since 1999 take-up has recovered, however a significant part of the take-up has been at one site, Kingmoor Park.

Enquiries

5.30. With few exceptions, most of the demand for space is from within Carlisle and is inclined to be on a "needs must" basis. In the rented sector, much of the demand is linked to the service industries, including logistics, and tends to be focused on buildings of 930 sq. m. or less.

5.31. The willingness of Kingmoor Park Properties Limited to lease on flexible terms is accelerating, following the national trend towards shorter leases. In the owner occupied sector, there is relatively little movement, particularly amongst local firms. They are inclined, in the first instance, to extend on site if possible before considering relocation.

5.32. Footloose occupiers and inward investors are rarely attracted to Carlisle, which offers little in grant assistance, compared to neighbouring regions. Labour shortages are also a significant concern in certain sectors of the market.

Small and Medium Enterprises (SMEs)

5.33. Carlisle suffers from a low business birth rate. Nevertheless there are a number of schemes aimed at SMEs. These schemes typically include a mix of accommodation attracting a wide range of new and small businesses.

5.34. Incubator developments aimed at the SME sector include the Enterprise Centre at James Street, Riverside Business Centre at Warwick Road and Warwick Mill Business Centre. Although these properties enjoy a high level of occupation they are rarely in full occupation and consequently do not adopt a strict policy governing length of stay or floorspace limitation.

5.35. More conventional nursery workshop developments into which firms from incubators can move up have similarly relied upon the Public Sector. Development for SMEs is not generally attractive to private developers. It has a higher risk profile with shorter leases, rent arrears, increased void levels, more intensive management, higher build costs and lower values.

5.36. Although Carlisle has surprisingly few developments of units up to 500 sq. m. which could provide "move on" accommodation to occupiers in managed workspace, there is no evidence to suggest a shortage.

Rental Values

5.37. Rental levels on the typical Kingstown Industrial Estate premises have levelled out at about £38.75 per sq. m. for units of between 300-1,000 sq. m.

5.38. At Kingmoor Park, rents are in the range of £16.15 per sq. m. - £32.30 per sq. m. depending on the size and age of the building and whether or not it has been refurbished. A service charge of approximately £2.70 per sq. m, is levied in addition.

Investment Yields and Capital Values

5.39. Modern buildings on a typical industrial estate in Carlisle generate capital values in the order of approximately £310 per sq. m. This is generally close to the new build costs.

5.40. There have been 2 recent industrial investment transactions in the City. The first is the former Slough Industrial Estates development at Grearshill Road, Carlisle, which was sold earlier this year to a private investor at an initial yield of 7.95%. The second is the Port Road Industrial Estate, which was also sold earlier this year, again to a private investor at an initial yield at 9.3%.

5.41. Both of these deals were to some extent fuelled by the present, extremely high level of demand for investment premises of all types. This demand has escalated with the low level of interest rates, the collapse of the stock market and the move to relocate funds elsewhere.

5.42. Land values range from £197,500 - £296,500 per hectare, depending on location and proposed use.

Key Issues and Outlook

5.43. The industrial market is suffering from an oversupply of industrial buildings. The majority of the available industrial supply is older, second-hand buildings and this situation is exacerbated by availability of former MoD accommodation at Kingmoor Park.

5.44. Most of Carlisle's employment land is located at the northern end of the City on Parkhouse and Kingmoor Park. The Carlisle Northern Development Route will open up the western side of Carlisle. It is felt that until such time as access to the motorway can be gained to the western side of the City without passing through the City Centre, demand for land in those locations (for example at Morton) is likely to be very limited indeed.

5.45. There is some uncertainty in the market as to the long-term effects of Kingmoor Park and, in particular, to the amount of poor quality space that is available for letting. Kingmoor Park has of course created a significant pool of space, meaning that any realistic requirements can be more or less immediately satisfied. However, Kingmoor Park now dominates the local market and may have a detrimental effect on the local industrial property market by depressing values and soaking up demand.

5.46. Having regard to the fact that no substantial grant assistance is available to help stimulate industrial development, it is fair to say that Carlisle has more than held its own over the last 20 or 30 years. The availability of space at Kingmoor Park makes speculative industrial development less likely as supply far exceeds demand and rental levels are low.

5.47. There has, over a number of years, been a resistance to the City Council's standard form of 99-year ground lease with 5-year rent reviews. There is a strong desire on the part of many industrial occupiers to own freehold premises.

5.48. Whilst this preference for freeholds is often dismissed as emotional and psychological, it is based on a number of well founded reasons:

- It offers total control without restricting and constraining covenants and clauses;
- The ownership is in perpetuity rather than for a demised term however long;
- Freeholds are preferred by financial institutions providing lending;

- A freehold interest in land is not a wasting asset, which is the case with a lease for a term of years;
- Ground rents with upward only rent review clauses cause uncertainty and can make disposal of a ground lease interest difficult;
- Modern ground leases are long and complex, freeholds are far easier to understand;
- Landlords consent is required by the ground leaseholder for a range of matters which can take time and incur costs.

5.49. The City's policy of leasehold disposals has been at a cost. Freehold land is offered for sale in Eden District and indeed in many of the local authorities in West Cumbria. Despite often weaker locations, the uptake of land at Gilwilly and Penrith Industrial Estates over the last few years has matched that of Carlisle in relative terms. Carlisle City Council's inconsistent policy of selling some freeholds (e.g. the Auction Mart site at Rosehill) but refusing other requests, has caused confusion and frustration to tenants, prospective occupiers and developers.

6.0. CARLISLE'S OFFICE MARKET

Background

6.1. Despite being the most northerly District in Cumbria, Carlisle's strategic location has led to the city becoming established as the administrative centre for the County. The office market has been underpinned by strong representation from the public sector, which helps sustain a cluster of professional occupiers.

6.2. The office market in Carlisle originated with converted town houses and upper floor space over retail uses. Situated in and on the fringe of the main city centre, streets such as Victoria Place, Spencer Street and Portland Square became recognised office locations. In common with many historic cities, narrow streets and dense development have led to traffic and car parking problems for modern office occupiers.

6.3. In the 1960's and 1970's, strong occupier demand for larger space led to the development of a number of purpose-built, multi-story buildings. The majority of these were situated in the city centre and were constructed for specific occupiers.

6.4. During the 1980's and 1990's the majority of office developments undertaken in the City took the form of business park space. At Rosehill in excess of 3,716 sq. m. was constructed largely on a pre-let/sale basis. To the north of the City, an initial phase of the Acorn Business Park at Parkhouse, providing a total of 1,115 sq. m. of speculative space within 3 units was developed. Letting was slow and further planned phases were not constructed.

6.5. Kingstown Road, the main northerly route out of the city adjacent to Kingstown Industrial Estate, saw development by A2 users. The Clydesdale Bank relocated from city centre premises. HSBC Bank and Cumberland Building Society both opened sub-offices.

6.6. Also at this time, there are instances of occupiers, particularly accountants, purchasing buildings for conversion to office premises

6.7. Until recently, the only new build city centre office development during the last 10 years was first-floor space within the Carlyles Court scheme. Approximately 808 sq. m. of offices were constructed ranging from 43.9 – 260 sq. m. Carlyle's Court lacks any on-site car parking.

6.8. A fairly buoyant market for office space over the last few years has resulted in a number of other developments around Carlisle. The refurbishment of Hilltop Heights, now re-branded as the Capital Building, provides approximately 1,765 sq. m. of good specification space with extensive on site car parking. This is now entirely let. At Kingmoor Business Park, approximately 2,787 sq. m. of new build space is under construction for Capita. To the south-east of the city, buildings within the former Garlands Hospital complex have been converted to office use, again to let.

6.9. The past 10 years has also seen development of managed or serviced office accommodation at Riverside and Warwick Mill Business Park. The City Council's Enterprise Centre provides some facilities of this nature. Incubator space within the Irthing Centre in Brampton is also available. This form of accommodation is particularly of interest to new businesses requiring easy in/easy out terms. The City has not seen the emergence of managed offices as this is effectively catered for in existing facilities. Operators such as Regus would not be attracted unless the City's office market had a far larger critical mass. Furthermore operators in the sector throughout the country are encountering problems following rapid growth and are facing consolidation.

Supply

6.10. At the present time, there is very little office space available in the city.

6.11. On the Acorn Business Park, a single unit of approximately 278.71 sq. m. is available, and in the city centre there are currently two suites in Carlyle's Court totalling approximately 168 sq. m.

6.12. At present, even the available stock of converted town house premises within the city centre is fairly limited. The exception to these supply conditions is over the shop space which suffer continued high vacancy rates.

6.13. Marketing of the newly refurbished block at Kingmoor has commenced. Office space extending to 1,300-sq. m. at Rome Street is now also on the market.

Proposed Developments

6.14, English Gate Plaza, Botchergate:

Open-plan space at first and second floor-levels within a new retail and leisure development on Botchergate. The scheme has potential to provide approximately 2,973 sq. m. Construction work has recently commenced with completion anticipated Autumn 2003.

6.15. Development by H & H and AWG at Rosehill:

AWG and H & H propose approximately 4,645 sq. m. of speculative office space within a mixed commercial and leisure scheme at Rosehill. A planning application in respect of this development has been lodged with the local authority.

6.16. Other Schemes:

Office development is also proposed at Kingmoor Park (3,716 sq. m.), Hilltop (2,787 sq. m.) and Parkhouse (2,787 sq. m.). These proposals are at an early stage of the development process.

Demand

6.17. Demand for office space in Carlisle is almost all generated by: central and local government; health organisations; financial sector; professional firms; agencies spun out of the public sector and education. Although there are no reliable statistics on take-up, we estimate an annual average of 2,000 – 4,000 sq. m. of office properties leaving the market in recent years.

6.18. The majority of office requirements are for small suites or buildings, commonly in the 140 – 325 sq. m. Larger requirements come primarily from the central and local government sector. Recent requirements for DEFRA (formerly MAFF), the Secretary of State for Employment and Capita, formerly Cumbria County Council, are evidence of this. The financial services sector too has in recent years produced some larger space requirements such as the Clydesdale Bank and Bank of Scotland relocations .

6.19. The majority of enquiries from these categories come from firms or businesses already based within Carlisle. There are relatively few inward investment office enquiries which prove to be genuine. Enquiries tend to be specific to the City, i.e. the enquirer would not consider locating elsewhere. If, due to the absence of speculative space enquirers are unable to find accommodation immediately, they must wait for space to be constructed.

Rental Values

6.20. Rental values for office accommodation can be broken down into a number of segments of the market:

		£ per sq. m.
A	Upper floors (over the shop)	32.29 – 83.82
B	Townhouse conversions	53.82 – 86.11
C	Multi-storey with lift access and limited parking (i.e. original office blocks)	75.35 – 91.50
D	Multi-storey with lift access and good car parking facilities*	97 – 108
E	Business Parks – out-of-town	103 – 135
F	New schemes, English Gate Plaza asking rental	135
G	Kingmoor Park – asking rental expected to be approximately -	108 – 113
H	Rural locations	32.29 – 64.58

* Service charge in addition

6.21. Rental growth has generally been slow. New schemes are quoting rents which provide an adequate return on cost.

Investment Yields and Capital Values

6.22. The market falls into two distinct categories. Firstly, owner-occupiers who generate yields of 10% - 12% for town house conversions and 8% - 10% for purpose-built office accommodation in out-of-town locations.

6.23. Secondly, the investment market, where yields range from under 7% to over 13%.

6.24. We are not unaware of any recent investment transactions relating to sale of converted town house office investments. If offered, depending on the covenant and lease terms, we would expect yields in the order of 9% - 12.5% to be realised.

Key Issues and Outlook

6.25. There is continuing demand for well located, modern, good quality office space. However, demand for "over the shop" space continues to be weak. The implications of the Disability of Discrimination Act will in our opinion further exacerbate these trends.

6.26. The level of values achievable combined with unpredictable demand make speculative development very difficult to justify. English Gate Plaza is an exception as this building forms part of a larger mixed use development, much of which is already pre-let.

6.27. Developers will continue to be faced with demand for lettings on shorter lease terms which has implications for funding.

6.28. Kingmoor Park has the potential to become a dominant office location in the city due to the availability of buildings suitable for conversion and the landlords' willingness to offer flexible lease terms.

6.29. There are a number of potential out-of-town schemes for new build office floor space in the pipeline. Prevailing demand levels however are in our opinion unlikely to be able to sustain all of these schemes. PPG6 is likely to be an important factor in determining planning applications.

6.30. The new Capita building at Kingmoor will accommodate various departments which will be relocating from existing property in the city. This stock is primarily of converted town houses. There is some danger of the market becoming flooded if all of this stock becomes available at one time.

6.31. The drift of office occupiers from the city centre to the fringes is partly due to the lack of a defined town centre or fringe of town centre office campus location. Unless such a location can be identified and made available for development, the pressure for new build development on the outskirts of the city will continue. The drift to these out-of-town locations is being accelerated by the increasing congestion in the City Centre and expensive parking provision.

6.32. Access to modern IT links, particularly broadband internet, is becoming increasingly important. This is a trend that will continue and the city must be able to deliver if it is to be competitive.

7.0. CONCLUSIONS

7.1. In **retailing** terms, Carlisle is a popular and vibrant city centre which is fulfilling its role as a regional shopping centre. The city's remoteness from other centres represents a strength in retail terms as competition is limited.

7.2. The City Council has been instrumental in delivering Carlisle's most significant retail development, The Lanes. This has soaked up pent-up demand from retailers for the city and the market has now reached a state of equilibrium.

7.3. Rental growth is considered adequate by investors but tends to be in stepped changes rather than straight line growth.

7.4. There are concerns that a new supermarket on the edge of the central core could threaten city centre retailers if a significant element of non-food retail is allowed.

7.5. Carlisle's **leisure** market has tracked the City's success in the retail market and reinforced its appeal as a tourist destination.

7.6. Leisure and retail tend to be the most dynamic sectors of the commercial property market. Change can be rapid and trends can reverse almost overnight.

7.7. Both retail and leisure sectors generate high rental and capital values which enable the market to respond to operators' needs, subject to the control of the planning process, relatively quickly.

7.8. Generally both sectors of the market are functioning efficiently and values are adequate to drive change through private sector development.

7.9. Carlisle's remoteness limits the potential of its **industrial** market. The absence of grants and existing low levels of unemployment reduce the city's prospects of attracting inward investment and threaten the expansion of existing industrial occupiers, many of whom owe their location to historic factors which no longer apply.

7.10. The quality of industrial stock is relatively poor as it is dominated by older second-hand properties. New development is limited to bespoke buildings as speculative development is too risky and values are low. Without public sector intervention new speculative industrial development will continue to be unlikely.

7.11. The supply of both development land and industrial buildings is dominated by Kingmoor Park. It has a potentially dangerous hold over the industrial market. We have evidence of investors pulling out of the City because of the poor prospects for rental growth, resulting largely from Kingmoor Park's ability to provide low value accommodation.

7.12. The Carlisle Northern Development Route could open up new employment sites to the west of the city, including Morton. This can widen the choice of sites available to occupiers and developers.

7.13. Many of the mature industrial estates in Carlisle are suffering from a lack of investment, particularly in infra-structure and maintenance. The decline of these estates is being accelerated by a lack of investment by occupiers. The Council's resistance to disposing of freeholds has worsened the situation, making occupiers less likely to commit capital to repair/refurbishment and redevelopment.

7.14. Carlisle's **office** market appears underdeveloped for a city of its size. While other regions have seen job losses in the manufacturing sector offset by growth in the service sector, this has not been the case in Carlisle.

7.15. Carlisle's office market tends to rely on pre-let development as values are not sufficiently high to make speculative development viable. It is clear therefore that Carlisle's office market is failing.

7.16. Office development would widen the economic base and increase the skill base of the City. Improved prospects for graduates could reduce the brain drain, which presently threatens the City's future prospects. The net effect could be to increase the average wage, enhancing all aspects of the local economy.

7.17. The limited amount of office development undertaken in recent years has been on out-of-town locations. This drift of occupiers out of the City Centre has been accelerated by traffic congestion and car parking problems.

7.18. Property developers are in the main risk averse. Developing in an isolated and remote market like Carlisle is a risk that many will not take. Where development does occur, it tends to follow a tried and tested formula rather than to attempt to pioneer or to innovate. The industrial and office sectors of Carlisle's commercial property market are testament to this fact.

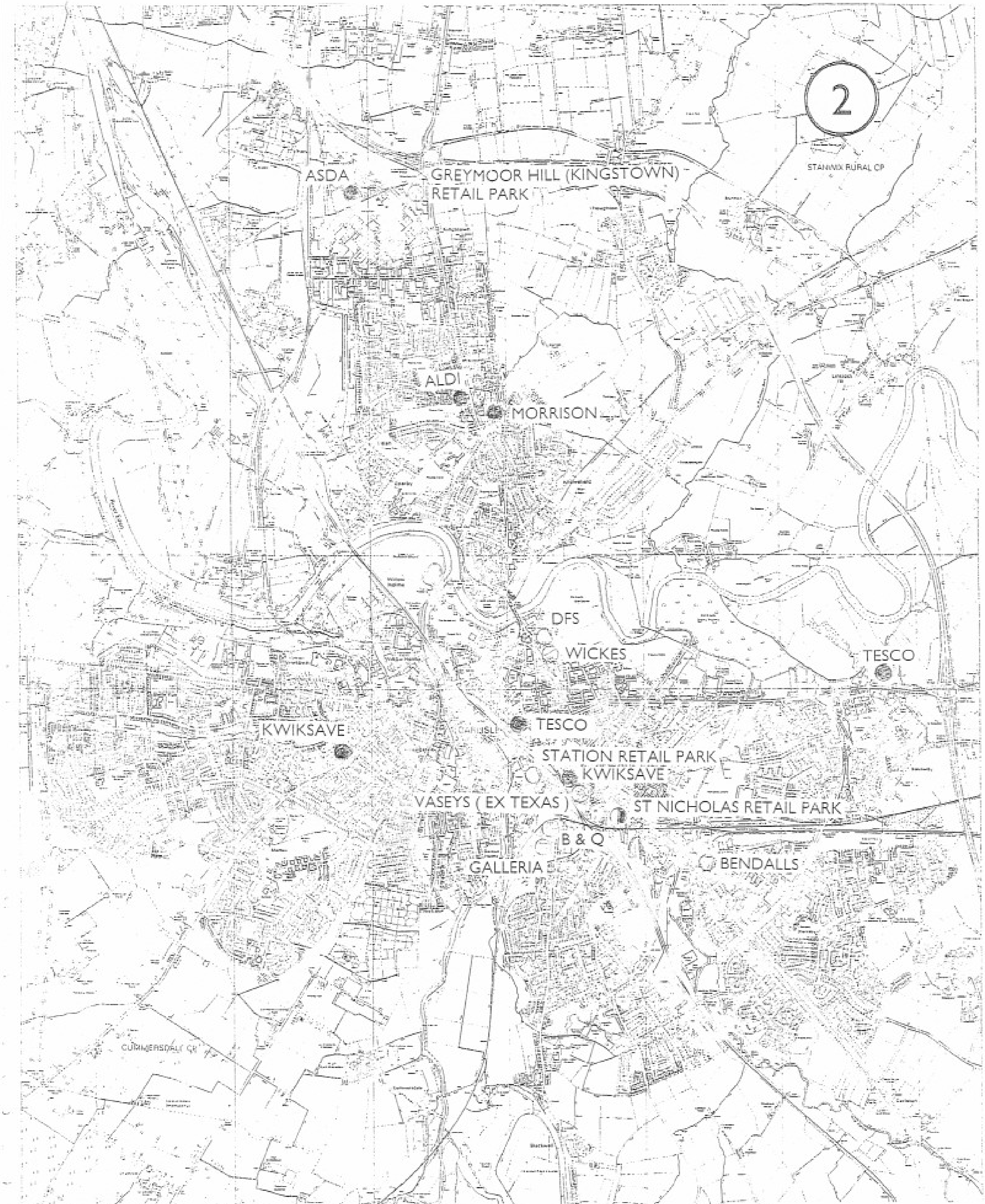
7.19. Elsewhere in the UK, supply has led and sometimes created demand that was not previously evident. The relative weakness of Carlisle's commercial property market, with its low values and slow growth, will not support ambitious, trail blazing schemes. Only with the encouragement and assistance of the Public Sector, particularly the City Council, can these schemes be realised giving Carlisle a competitive edge and a dynamism which will lead to economic growth.

CARLISLE'S MAIN INDUSTRIAL ESTATES

Lamb & Edge
CHARTERED SURVEYORS

CARLISLE CITY COUNCIL
Department of Environment & Development
Planning Services
Civic Centre, Carlisle, CA3 8QG

1. KINGSTOWN
2. PARKHOUSE
3. KINGMOOR PARK
4. ROSEHILL
5. WILLOWHOLME
6. NEWTON & BURGH ROAD
7. VIADUCT & DENTON HOLME
8. DURRANHILL & RIVERBANK
9. ST NICHOLAS
10. PORT ROAD



CARLISLE CITY COUNCIL
Department of Environment & Development
Planning Services
Civic Centre, Carlisle, CA3 8QG

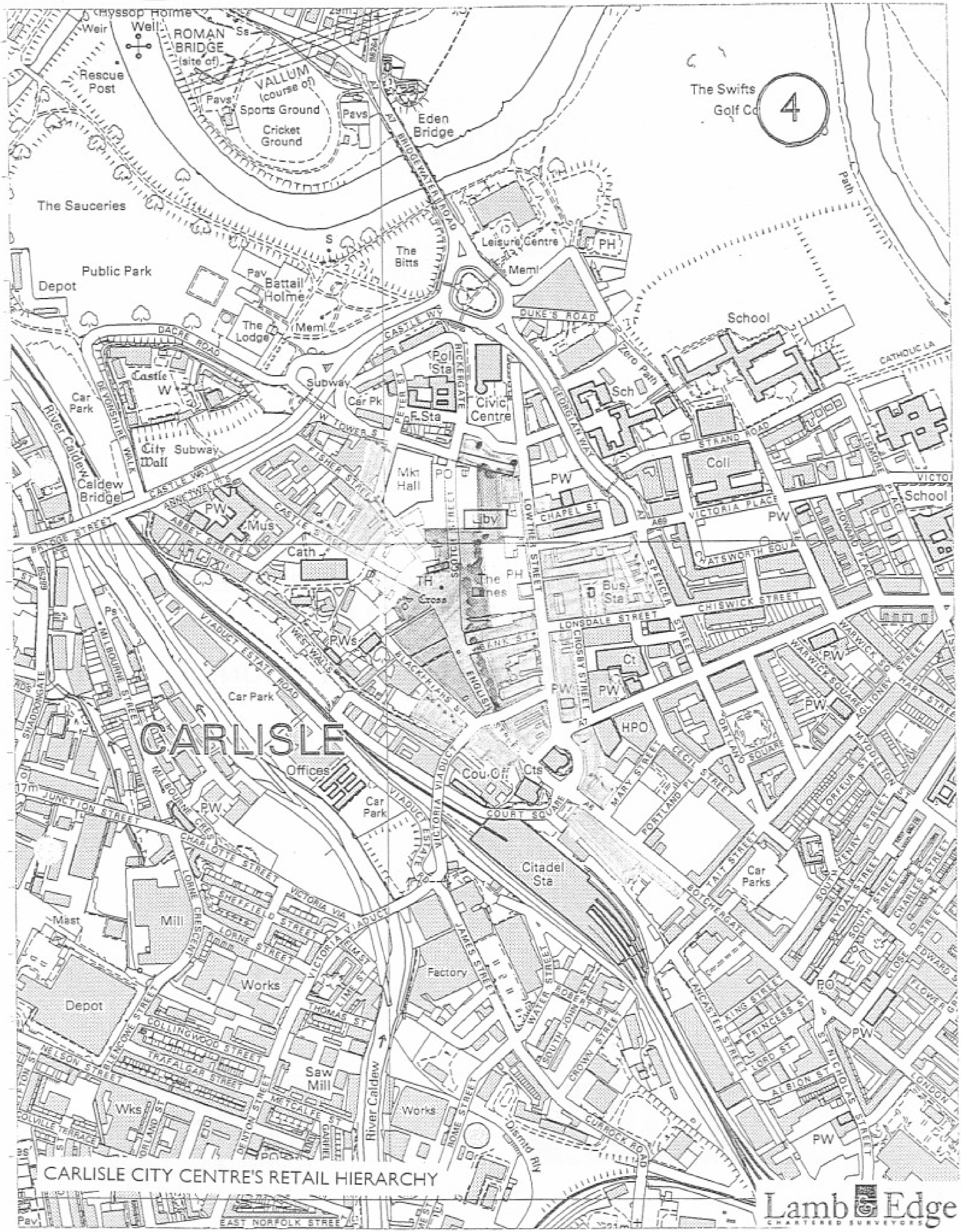
OUT OF TOWN RETAIL IN CARLISLE

FOOD RETAIL

( ) NON FOOD RETAIL

CARLISLE CITY COUNCIL
Department of Environment & Development
Planning Services
Civic Centre, Carlisle, CA3 8QG

KEY COMMERCIAL DEVELOPMENT OPPORTUNITIES
RETAIL
( ) OFFICE
INDUSTRIAL



CARLISLE CITY CENTRE'S RETAIL HIERARCHY

CARLISLE CITY COUNCIL
Department of Environment & Development
Planning Services
Civic Centre, Carlisle, CA3 8QG

PRIME
GOOD SECONDARY
SECONDARY

B

CARLISLE
CITY COUNCIL
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MAKING THE CITY COUNCIL'S PROPERTY WORK FOR CARLISLE

A REPORT TO CARLISLE CITY COUNCIL

Lamb & Edge
CHARTERED SURVEYORS

Carigiet Cowen
Chartered Surveyors

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Despite low unemployment, Carlisle's economy still requires investment and involvement by the Public Sector in order to provide the right environment for Private Sector business investment. Property-led initiatives by the Council have been successful in the past and offer a medium which can promote economic activity and often an attractive financial return.

First and foremost, the Council's rationale for owning property assets should be to support economic development. Only when those assets are sustainable in economic terms should they then be held in the long term for financial return. With the right policy framework in place, over time, property will provide the Council with a level of income that can support central services. The Council now has an opportunity to put a policy framework in place and initiate actions which will benefit future generations.

Way Forward

If progress is to be made, our recommendations need to be accepted and embraced in full by the Council. These recommendations are inter-related and should not be regarded as a menu from which some can be selected and others disregarded. We commend the Council for agreeing to an open, consultative approach and appreciate some decisions will be difficult however, there is not one simple solution to the complex problems which are currently faced. Whilst we are recommending continued and active involvement by the Council in its property portfolio, its overall approach must now be embedded with a commercial realism that arrests the current spiral of decline and responds to the changing needs of the local economy.

Recommendations

1. Prepare one clear and concise policy document that clearly links property ownership to corporate objectives and sets out a flexible 10-year plan for the portfolio.

2. Agree that for the non-operational portfolio, economic development is the primary reason for ownership

3. Appraise options on an estate by estate basis to ascertain the best route to pursue in order to achieve and support economic development.

4. Confirm an immediate ring-fencing of all new property income and capital receipts to be retained only for re-investment in the portfolio.

5. Investigate the delivery of a Public Sector led central office park location to attract Private Sector development, which will both slow down the drift of occupiers to out-of-town sites and attract new office-based employment to the city.

Making the City Council's Property Work for Carlisle

1. Introduction

As a consequence of the Audit Commission report (March 2002) into Best Value for Carlisle City Council's Property Services, Lamb & Edge and Carigiet Cowen have been instructed by Carlisle City Council to provide a framework which will enable new property policy to be formulated. This work follows on from reports by Lamb & Edge and Carigiet Cowen on Carlisle's commercial property market and a consultation exercise with stakeholders and opinion formers in that market.

2. Background

In the Audit Commission report, the Council's performance was assessed as 'fair' and given a one-star (out of three) rating with uncertain prospects for improvement. The report set four main recommendations:

- Clarify the Council's community and financial aims for property in one consistent policy expression;
- Develop criteria for decisions on whether to dispose of property;
- Maintain the fabric and worth of the community's property assets through a programme of asset maintenance;
- Improve liaison and consultation with tenants.

In order to implement the Audit Commission's recommendations, the Council concluded that it needs:

A. An understanding of the local property market and the Council's past, present and future role in it;
B. To consult with businesses and property opinion formers in respect of the Council's role;
C. To decide upon the policy options available to it as a consequence of A and B.

Upon the Council's instructions, we have undertaken A and B and have issued our reports. It is clear from those reports that the Council's role in the local property market has been and continues to be significant. Its influence has ranged from positive to neutral to negative but should not be underestimated.

As a result of changes in the local and wider economy, changes in the market and increased pressure from Government to promote economic vitality and to actively manage it's property assets, the Council's portfolio has reached a crossroads.

We have concluded that currently in the City's commercial property market:

- The retail and commercial leisure sectors in the City are currently sufficiently dynamic and values high enough to enable the market to function without Public Sector intervention;

- The industrial property market is not able to function without intervention. However once delivered, the Council's continued involvement and inability to invest further is inhibiting economic development;
- Carlisle's office market has failed to deliver the levels of development, which we would expect to see. Public Sector intervention is required to bring forward opportunities in the office market particularly in central locations.
- The Kingmoor Park development is proving to be a success of some magnitude but a monopoly ownership situation is being created. An alternative scheme needs to be explored to bring some competition into the market place, while still offering a good financial rate of return to the Council.

3. The Council's non-operational property portfolio

In common with many other Local Authorities, Carlisle City Council is a significant property owner. The Council's portfolio comprises three categories of property:

(i) Operational land and buildings held for the purposes of delivering direct services to the public including leisure assets and community services;

(ii) Properties which are used to support delivery services – including the Civic Centre, local administrative offices and vehicle depots;

(iii) "Non-operational" property holdings, that is, properties not used for service delivery purposes. Carlisle City Council has an unusually large portfolio falling into this category primarily including land.

The Council's property asset base can be summarised as follows (as at 31st March 2003):

	Operational Assets	Non-Operational Assets	Surplus Assets
No. of Asset Lots	50	44	22
Total Income	£1.1M p.a.	£3.79M p.a.	£16,400 p.a.
Total Value	£18M.	£61.3M.	£5.3M.

The non-operational portfolio can be analysed as follows:

Non-operational Property Income 2001/2002	Total £3.79M
The Lanes (incl. car park)	£1.49M
Industrial Estates, Enterprise Leisure, Industrial Units	£1.80M
General (Old Town Hall & University of Northumbria)	£0.29M
Industrial Units	£0.10M
Market Hall and Civic Centre	£0.11M

Updated April 2003

The majority of the City Council's non-operational property portfolio was assembled in pursuance of economic development objectives. In response to market failure, the Council had a major involvement facilitating industrial development dating back to the post-war period. The Council also played a key role in the development of the city centre's principal shopping centre, The Lanes, in which it has retained an interest.

At a time when Local Authority finances are under severe pressure, the rental income from the non-operational portfolio forms a significant part of the Council's annual revenue. Whilst the Council's investment in The Lanes has been highly successful and is expected to continue to perform well, the industrial estates portfolio has been identified as a growing problem which, if not addressed, will jeopardise both financial and economic development objectives. The latter is largely due to a lack of investment which inevitably fosters a reactive rather than pro-active management approach. We recommend that substantive and immediate action is required by the Council, in order to protect the public purse. Presently, the portfolio is failing to satisfy either financial or economic development criteria.

4. The Council's Industrial Estates

Unlike the Private Sector, Local Authorities are unable to borrow against the value of their property assets. Carlisle City Council has therefore been severely restricted in its ability to invest further in its portfolio. Although many of its property assets are relatively unaffected by this lack of re-investment, some of the Council's industrial estates are in a spiral of decline which is prohibiting further economic development. We have concluded from our work that if the Council still wishes to promote economic development through its property holdings, it must seek to improve its management and development policies in relation to the industrial portfolio. Furthermore, although we recognise the importance of the rental income generated by the portfolio to the Council's budget, if it fails to act now to solve these problems, financial return will undoubtedly decline.

Providing an income of around £1.8 million, the industrial estates portfolio generates almost half of the Council's non-operational property income. The portfolio represents economic development initiatives by the Council over the last 50 years, which have transformed the city and enabled thousands of jobs to be created in Carlisle.

Today, the industrial estates portfolio includes 16 estates. The size, quality, financial returns, legal interests, locational factors, problems and future prospects vary greatly as can be seen at Appendix 1.

The problems affecting each estate are different and it is therefore impossible to envisage an estate management policy, which will be appropriate to all. It is however clear that some estates are in desperate need of capital investment while others could be sold without having a significant impact on the Council's rental income. Furthermore there are cases where restructuring of leases or even freehold sales could release investment by the Private Sector.

The Council must consider the most suitable vehicle to arrest the decline of the industrial portfolio before these assets become liabilities. The vehicle should also be able to pursue new opportunities which will assist the Council in achieving its economic development objectives with a final aim of the property portfolio becoming a prudent and properly managed financial asset.

5. The Council's Options

The Council has a range of options available to it. At one end of the spectrum is disposal, while at the other extreme is to 'do nothing'. In between are various policies, vehicles and structures, many of which are specifically aimed at bringing in Private Sector expertise and investment. The options available are perpetually evolving in the light of Government guidelines, legislation, Local Authority finances and market conditions.

We have set out below some of the principal options. This list is merely indicative and should not be regarded as exhaustive:

(A) **Freehold Disposal** of the industrial portfolio as a whole or in lots to one or more investors. This would enable Private Sector expertise to be brought to bear on the portfolio. It would also generate a substantial capital receipt. The disdvantages of such an approach are however great. The Council would lose control over some of its most important and strategic assets. The loss in rental income would have a detrimental effect on the Council's revenue and could bring about a rise in the Council Tax. Furthermore, the Council would find it difficult to re-invest the sale proceeds at equivalent or higher rates of return than property can provide.

(B) **Selective disposal** would be a more flexible approach allowing the Council to divest itself of estates suffering problems and with poorer future prospects, retaining those with greater potential. The loss in rental income could be minimised and capital receipts could be re-invested in the retained estates and used to bring forward new opportunities. Disposal of some estates could be to Private Sector landlords or developers while on other estates, a policy of selling to occupiers and tenants could be implemented. The Council would be wise to consider opportunities to buy back older properties, in order to refurbish and let them, perhaps in partnership, thereby increasing rental income over time.

(C) **Joint Ventures** with Private Sector partners have been successfully used by the Council in the past. Joint venture companies have become relatively common in Local Government and could be confined to a particular estate/development or given a wider brief, encompassing part or all of a portfolio. In order to avoid the adverse impact of Capital Finance Regulations, the Council would generally take a minority interest or, provided the new Company satisfies the definition of a 'Private Sector Influenced Company', no more than a 50% stake. Joint ventures can bring Private Sector expertise and investment, however, while potential can be realised in the medium-long term, there is a loss of both control and rental income in the short term

(D) **Limited Partnerships** are being used with increasing frequency for property investment schemes. They provide a solution to partners who have different tax bases. They are tax transparent in that each partners' income and capital receipts are taxed as the Partners own income and receipts while the Partnership itself is not taxed as an entity.

In the case of a Local Authority seeking to attract Private Sector expertise and investment to develop its non-operational property portfolio, the process could be as follows:

(i) Council selects Private Sector Partner (PSP);

(ii) PSP contributes capital;

(iii) Loan Notes used to equalise contributions;

(iv) Company established as a General Partner through whom the management of the Partnership is procured. The General Partner is owned 50:50 by the Council and the PSP;

(v) Overarching agreement established between the Council and PSP to establish governing principles;

(vi) Partnership then raises money by way of loans to invest in the portfolio while sale proceeds are used for the purposes of reinvestment and acquisition;

(vii) Council and PSP share income and capital receipts from the property;

(viii) Exit at pre-agreed point, say 10 years.

This is the basis of a structure being considered by a number of Regional Development Agencies and Local Authorities. It frees the portfolio from the financial constraints of the Public Sector and brings in new investment. There are however problems in this approach. Firstly there would be a reduction in rental income to the Council. More fundamental however is that Local Authorities may be precluded from carrying on a business for profit. We understand that the Treasury are considering legislation to put beyond all doubt, Local Authorities' ability to participate in Limited Partnerships.

(E) **PFI** schemes are now well-established vehicles for providing accommodation for local authorities including schools, fire stations, police stations and other key operational premises. Procurement costs are such that PFI tends to be reserved for larger schemes where there is little likelihood of delivering the project through more conventional funding routes. It is an expensive and protracted process which, in common with other forms of joint venture with the Private Sector, leads to a loss of control from the Council's perspective. It would also result in a loss of income in the short and perhaps even medium term. We are however of the view that PFI should be seriously considered in order to deliver an office park for the central Carlisle area. The Council's own occupational requirements could form an integral part of such a scheme.

(F) **Ring fencing** of the industrial portfolio would involve dedicating increases in rental income and capital receipts to re-investment in the portfolio in order to achieve a given range of economic development and financial targets and objectives. Perhaps only a short-term measure, this approach would not bring in Private Sector expertise and investment but would retain Council control of this strategic asset and would enable the Council's Property Team to introduce policies and measures aimed at halting the current spiral of decline. While the Council might expect to forgo growth in income from the portfolio in the short term, increased returns could be generated in the medium to long term.

(G) **The 'do nothing' option** must be regarded as likely to put at risk the continued economic prosperity and growth of the City. Driven primarily by the need to generate income to support the Council's finances, this 'head in the sand' approach will result in mounting problems and decreased Private Sector investment.

6. Conclusions

The Council should be commended for adopting an open, independent and consultative approach to the crossroads that it finds itself at. The Public Sector has had, and shall continue to have, a significant role to play in Carlisle's property market. In certain key areas, Public Sector intervention at the appropriate level is required to provide a 'pump primer' to generate Private Sector economic development. We are recommending continued fundamental involvement by the City Council in property but with the added dimension of a more commercial approach. Currently, neither economic development nor financial prudence is being achieved. The following steps shall move the Council from this crossroads towards a destination that will both stimulate the local economy and help to provide financial stability for future generations. The complex set of issues faced by the Council does not, however, have a single or simple solution.

7. Next Steps

(i) Agree one clear and concise policy setting out why the Council owns its property assets and where it aims to be in 10 years time. This needs to cover all of its land ownership, be it operational or non-operational;

(ii) For its non-operational estate, clearly state that economic development objectives are the primary reason for ownership with a secondary objective of an appropriate financial rate of return that realistically reflects the confines and constraints of Carlisle's property market.

(iii) The Council must confirm that it wishes to stop the current spiral of decline. An estate by estate options appraisal is required to ascertain the route best suited to achieve this, considering those vehicles and options listed in Section 5 of this report. This will be a significant piece of work. A tailored site-by-site approach should be implemented.

(iv) Agree an immediate ring fencing of all property income, capital receipts and expenditure with net increases in revenue, to be retained for reinvestment. This is an essential pre-requisite in order to arrest the decline. The Council must once and for all stop using its property portfolio as a "cash cow", otherwise the inevitable outcome will be failure. Rental income drawn by the Council from the portfolio should be fixed at no more than the current level while capital receipts and increases in income are retained and re-invested. Over time, this will inject more dynamism into the local market and provide increases in income to the Council.

(v) Investigate a Public Sector-led central office park location to attract private development.

These steps are encapsulated into the recommendations at the front of this report.

Signed: .... **for and on behalf of Lamb & Edge**

Dated ....18.6.03..........

APPPENDIX I

Estate	Income £ pa (1998 Valuation)	No. of Leases	Future Prospects	Legal Interests	Comments
Kingstown	965,000 (11,500,000)	114	Fair to good	Mostly 99-yr. ground leases. Rent review intervals range from 21 years in early leases to 5 years. in those from 1980's.	Commenced in 1970's and since 1990, almost fully developed, this is a good quality well located industrial estate which will be overtaken by Kingmoor Park. Most roads unadopted. Will benefit from Northern Development Route (NDR).
Rosehill	185,000 (2,065,000)	23	Good	Mix of ground leases from 125-year peppercorn to 99 years. Rent reviews range from 24 to 5 years.	Commenced in late 1970's and centred on agricultural auction mart, Rosehill is a good estate in a prime location close to Junction 43 of the M6. 4.5 ha. of undeveloped land. Adopted roads.
Durranhill	31,740 (125,000)	28	Poor	All 99-year ground leases. Only 2 have rent review.	1950's estate in good location close to M6. Estate now in decline and unadopted roads are a problem.

Willowholme	25,940 (190,000)	24	Poor	All 99-year ground leases but only 1 with 14-year review pattern.	Commenced in 1940's. poor roads/landscaping with little sign of maintenance. Good central location but difficult to access at peak times.
Parkhouse	313,200 (2,750,000)	2	Good	Premium and geared rental ground lease to Asda. Land under offer on 125-yr. ground leases.	Developed in late 1980's on a phased basis. Remaining development land now under offer. Some land will be required for NDR. Availability of power a problem in common with all sites in the northern part of Carlisle.
Burgh Road	0 (100,000)	N/A	Poor	Peppercorn ground leases.	Begun in the 1960's and built on a phased basis. Last development plot under offer. Although no rental income, freehold has a value.
St. Nicholas	18,140 (300,000)	9	Good	Ground leases with mainly 14-year review patterns.	Edge of city centre scheme. Fully developed and showing signs of age.

Denton Holme Trade Centre	-£26,000 (Nil)	29	Poor	Sale and leaseback by Carlisle Council guarantees rent to investors of £120,000 but receives only £94,000 from occupational leases.	Small workshop scheme constructed in 1980's. Fully developed. Run at a loss. Council's headlease has some 10 years unexpired.
Longtown	3,500 (65,000)	2	Poor	Ground leases.	Small rural estate developed in 1970's.
Port Road Workshops	14,550 (174,000)	4	Moderate	Occupational leases for short term.	Five back-up workshop units in a residential area. Could have redevelopment potential.
James Street Workshops	27,250 (245,000)	7	Moderate	Short occupational leases.	Seven lock-up workshop units in a mixed use area. Fully let.
Hewson Street Workshops	15,000 (107,000)	5	Moderate	Short occupational leases.	Five lock-up units. Fully let.
South John Street Workshops	13,700 (128,000)	7	Moderate	Short occupational leases.	Seven lock-up workshop units. Difficult to let but currently all occupied. Redevelopment potential.
Enterprise Centre Workshops	N/A (440,000)	51	Moderate	Short occupational leases.	Former engineering works converted for sub-division into incubator. Prominent edge of centre site, which have development potential in future.
Old Gaol Site	1,430 (25,000)	11	Good	99-year ground leases expiring 2036/7.	1930's retail and office development represents good medium-term development opportunity for retail/offices.

Kingmoor Park	0 (N/A)	N/A	Good	Shares in Partnership agreement with Private Sector and County Council.	Strategic employment site acquired 1999 and being developed by Private Sector. Council shares can be purchased by Private Sector partner in 2004.
Currock Road	45,000 (N/A)	3	Good	Two ground leases with 21-year pattern, one at peppercorn.	Retail/B8 development commenced in 1970's. May have medium/long-term development potential.

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 1 SEPTEMBER 2003

EX.201/03 ASSET MANAGEMENT PLAN – REVIEW OF ECONOMIC ASSETS (Key Decision)

Portfolio Policy and Performance Management Finance and Resources

Subject Matter

To consider a joint report from the Head of Property Services and Head of Economic and Community Development (PS.8/03 ECD.28/03) on a review of economic assets as part of the Asset Management Plan. The City Council owned a uniquely large portfolio of economic based assets in comparison with other Districts and had a serious long term track record in using property to achieve employment creating objectives. Consultants had been engaged to challenge whether the City Council should continue this role in the future. Their advice was that the Carlisle property market required the City Council to continue as an active enabler. However, there was a significant issue concerning industrial estates which needed to be addressed, ie the need for investment to maintain the value of the asset and to support economic development objectives. The joint report outlined the broad steps that would be required to change the Council's approach from provider to enabler.

Summary of options rejected

None

DECISION

1. That the recommendations as prepared by consultants, Lamb and Edge/Carigiet Cowen be noted in principle subject to new policy work being undertaken particularly to appraise options available for the City Council.

2. That the Executive acknowledges that there is a continuing rationale for the public sector to be involved in the Carlisle property market in order to further City Vision objectives.

3. That it is noted and referred to the budget discussion that new capital receipts and additional income from rental growth is required for investment in the property portfolio.

4. That resources totalling £50,000 be recommended to the City Council in November 2003 as a supplementary estimate to undertake the policy and appraisal work during 2003/04 and 2004/05.

Reasons for Decision

To implement the principles adopted in the Council's Asset Management Plan.