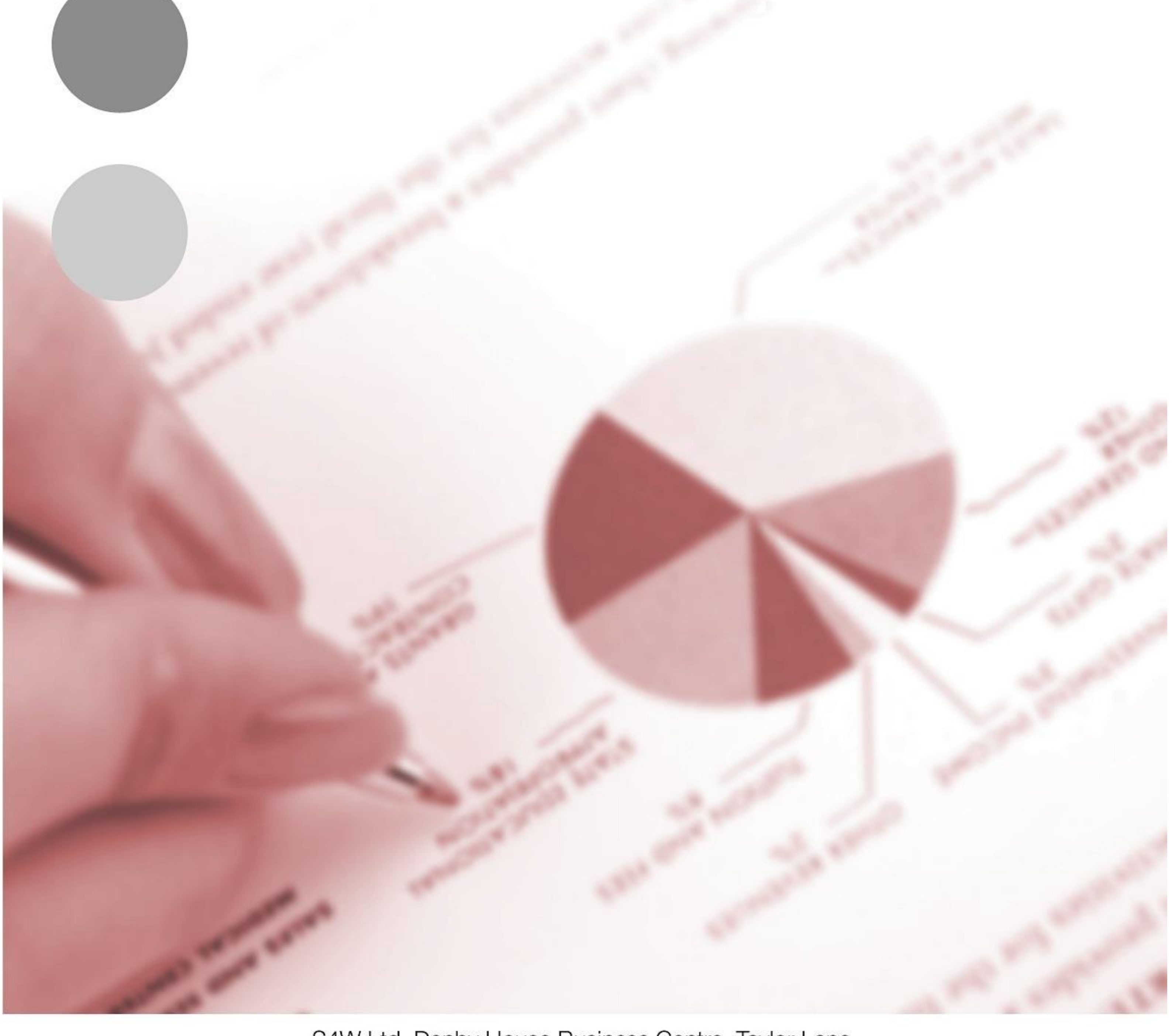
East Leicestershire Rural Workspace Demand Study

October 2014



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1 Executive Summary

1.1 This study has been commissioned by Leicestershire County Council on behalf of partners across East Leicestershire with the purpose of understanding currently available business workspace within East Leicestershire, any market failures within the business property market and the long term trends in supply of and demand for property.

1.2 The study is in support of an application and delivery plan for up to £2m of LEADER resources for East Leicestershire, but also to support investment decisions of Leicestershire's £3m allocation of European Agricultural Fund for Rural Development (EAFRD) and wider resources available through the Strategic Economic Plan.

1.3 In order to draw conclusions about the levels of demand for workspace across East Leicestershire, the study has drawn from local and national statistics sources, discussions with key stakeholders and local property agents and a survey of businesses and landowners in the area. A total of 74 survey responses were received.

1.4 East Leicestershire is an area that has had a relatively strong economy, but one that has suffered disproportionately as a result of the economic crisis of 2008. The economy is very rural in nature and economic activity is widely dispersed, with the economy being heavily dependent on micro-businesses and SMEs. Longer term the area is set to benefit from investment through the Superfast Leicestershire project, creating new business growth and diversification opportunities.

1.5 Results from the business survey suggest 62% of East Leicestershire businesses begin trading from home and 40% of those businesses were still trading from home. Businesses cited good broadband as the major issue affecting their location decision making (86%), followed by value for money (84%), easy tenancy agreements (55%) and proximity to home (53%). Businesses in the area were also mobile, with 43% stating they may relocate within the next two years, but only 27% felt there was a good choice of property within a 10 mile radius.

1.6 Consultation with property agents generally cited strongest demand for small office and industrial units, under 1,000ft^2. These size of units, especially under 500ft^2, are often not cost effective for agents to market and often are let 'under the radar'. Proximity to a decent A or B road network was deemed a critical factor, alongside a decent broadband service.

1.7 Outside of the two main centres of Melton Mowbray and Market Harborough, many of the workspace projects coming to the market were either high grade and priced many businesses out of the market, or were low grade conversions of agricultural buildings for storage purposes. Project costs are generally high due to the age/condition of buildings, high land costs and rural premiums for conversion/new build. Projects have tended to be design and build to reduce overall risks, in line with what has happened in the wider property market.

1.8 Whilst there is a good potential supply of sites/buildings to increase the supply of rural workspace, landowners highlighted insufficient finance and not being able to generate sufficient yields as the key barriers holding back projects. 89% of landowners felt there was sufficient demand for rural workspace in the market place.

1.9 There is a current gap for reasonable quality but affordable business space, preferably on easy-in, easy out terms in some of the more rural parts of East Leicestershire. Specific geographical locations are not deemed an important issue as people have indicated they would travel to appropriate facilities. There is demand from the following potential occupants:

- Businesses and entrepreneurs that want to graduate from working at home
- Businesses and entrepreneurs who wish to travel within a 10 mile radius for work
- Farm and rural diversification into fields such as tourism, food and drink and rural services

1.10 With regards to a role of the LEADER programme, the study finds there should be a strong focus on stimulating the supply of workspace in East Leicestershire. Given the potentially limited resources we feel the programme should concentrate on the following points:

- Consider a broader remit that investment in bricks and mortar and looks at issues such as access, signage, soundproofing and making properties more attractive to potential tenants (including those currently 'stuck' on the market).
- Support innovative ways of marketing relevant property to micro-businesses
- Link capital investment to business development resources and/or fund and support activity where proposals are based on farm diversification.
- Make smaller scale micro investments linked to job creation/safeguarding and business development with an investment limit of £30,000
- Ensure that in any application process, the project proposer has a clear idea of demand or has identified a potential end user(s)

1.11 There is also scope for EAFRD and other economic development resources to look at supporting gap funding in larger workspace schemes, particularly where projects offer a range of tenancy options and are linked to enhanced broadband provision.

2 Background

2.1 This study has been commissioned by Leicestershire County Council on behalf of partners across East Leicestershire (including Melton Borough Council, Harborough District Council, Charnwood Borough Council and Blaby District Council). The purpose of the study is to understand currently available business workspace within East Leicestershire, any market failures within the business property market and the long term trends in supply of and demand for property.

2.2 The study will also assess whether there is sufficient workspace available to businesses within East Leicestershire and if this is likely to be a drag on economic growth in the area. We will also make recommendations as to where interventions may be needed in the provision of small business workspace, particularly where it can support growth and job creation in the rural economy.

2.3 The study operates within the wider context of the Leicester and Leicestershire Strategic Economic Plan and a range of investment opportunities to support rural economic growth. This includes an application for a LEADER Programme for rural East Leicestershire, with the potential to secure up to £2m in additional resources. LEADER is a bottom-up programme, mobilising local resources and using small scale, sustainable interventions to stimulate rural development. The programme draws upon a Local Action Group, bringing together partners from the public, private and civil society sectors.

2.4 Alongside the potential for a LEADER programme, East Leicestershire can draw upon a £3m allocation of European Agricultural Fund for Rural Development (EAFRD), against which rural workspace has been deemed a key priority. There are also other mainstream resources that can support the development of rural growth including the European Regional Development Fund and Single Local Growth Fund.

2.5 The emphasis of the study is to identify gaps in the market for business workspace for rural based micro and small businesses and make recommendations about how the resources identified above (and particularly LEADER) could potentially make investments to increase the supply of rural workspace in the short to medium term. In the context of this study, workspace has been classified as B1 and B2 use[1].

2.6 The study defines East Leicestershire as the proposed area for the East Leicestershire LEADER Local Action Group, which consists of the Districts of Melton and Harborough and parts of Blaby (Countesthorpe and Kilby) and Charnwood (the Wolds)[2].

[1] B1 classification is as office, research and development or industrial processes that can be carried out within a residential area. B2 use is for buildings undertaking industrial processes

[2] See Appendix A for a list of Output Areas

3 Methodology

3.1 The study has used local and national statistics to undertake a detailed analysis of the local economy and also to indicate what the longer term economic trends in the area may be. This has also included drawing upon the Leicestershire Rural Economy Evidence Base, produced in June 2014 by Rose Regeneration.

3.2 A range of key stakeholders were engaged to discuss their views on the rural economy and the supply of and demand for business workspace within East Leicestershire. This process ran in tandem with the consultation process for the East Leicestershire LEADER Local Action Group and has drawn from other input into the LEADER programme. The stakeholders engaged in the project include:

- Leicestershire County Council
    - Rural Partnership Manager
    - County Farms Estates
- Melton Borough Council
- Harborough District Council
- Charnwood Borough Council
- Leicester and Leicestershire Enterprise Partnership
- Country Land and Business Association
- National Farmers Union
- Buckminster Estate
- PERA
- Derbyshire, Nottinghamshire and Leicestershire Chamber of Commerce
- Federation of Small Businesses
- Planit-X Planning Consultants
- Oxford Innovation (Harborough Innovation Centre)
- Manor Farm Feeds
- Andrew Granger Estate Agents

3.3 A total of 22 property agents with available commercial property across East Leicestershire were contacted – either face-to-face, via telephone or through a review of their advertised properties. This process was undertaken to support an assessment of current and future demand and supply of commercial property, both industrial and office based.

3.4 A landowner's survey was also conducted, distributed by the National Farmers Union, the Country Land and Business Association and some of Leicestershire's larger rural estates. A total of 16 responses were received, which gives a reasonable picture of the type of properties and workspace projects that could come to the market in the future. It has also helped identify some of the barriers these projects may face in their development, including looking at planning decisions relating to conversion to commercial uses.

3.5 A wider business survey was also distributed through a range of business intermediaries including the Chamber of Commerce, the Federation of Small Businesses, NBV; PERA, Creative Leicestershire, the LLEP and Melton and Harborough Local Authorities' Economic Development services. A total of 58 responses were received to this survey, with businesses indicating the type of premises that they started in and their current and likely future premises requirements. It also identified the key factors that businesses look for when sourcing property in rural areas.

4 Socio-Economic Context

4.1 The area of East Leicestershire is very rural, with 43% of the population in Melton Borough living in areas classified as rural and 61% in Harborough. Also included in the study are the more rural parts of Charnwood (which overall is classified as 14% rural) and Blaby (19% rural), although the majority of these areas are classified as urban[3]. The area is serviced by the two main market towns of Market Harborough (pop. 22,911) and Melton Mowbray (pop. 27,158)[4]. The area is in the catchment of the major cities of Leicester and to the north Nottingham, but also other settlements such as Grantham, Corby, Oakham and Stamford.

4.2 The very rural nature of the area has had a strong influence on the rural economy, which has clear sector strengths around land-based sectors, agricultural services and supplies and sectors such as tourism and food and drink. Melton Mowbray is well known for its locally produced food including Stilton Cheese and Melton Mowbray pork pies, which since 2009 has been subjected to EU Protected Geographical Indication, meaning Melton Mowbray pork pies can only be manufactured within a 28 square mile radius of the town.

4.3 The table below identifies some of the key labour market characteristics in East Leicestershire. Claimant count rates are considerably below the regional average, notably in Harborough. Claimant rates for the 18-24 year old age cohorts are also low, although the claimant rate for young people is much higher in Melton than Harborough.

	Claimant Count (July 2014)[5]	Claimant Count 18-24 year olds (July 2014)[6]	Hourly Pay by Residence (excluding overtime)[7]	Hourly Pay by Workplace (excluding overtime)[8]
Blaby	1.1%	2.0%	£13.52	£11.15
Charnwood	1.1%	1.1%	£13.01	£12.28
Melton	1.3%	2.8%	£10.68	£10.78
Harborough	0.7%	1.6%	£13.61	£11.28
Leicestershire	1.2%	2.0%	£12.70	£11.53
East Midlands	2.3%	3.8%	£12.02	£11.71

4.4 Despite some economic similarities, there are some major structural differences between the economy of the north of East Leicestershire (Melton and parts of Charnwood) and that of the southern elements of East Leicestershire (Harborough and parts of Blaby). Residence based hourly pay is higher than the Leicestershire average for all of the identified Boroughs with the exception of Melton, which is considerably lower than the County and Regional average. This highlights the commuter patterns into other employment centres for relatively better paid jobs. There is a £3 per hour pay gap between Melton and Harborough residents.

[3] DEFRA Rural/Urban Classifications of Local Authorities (2011 Census).
[4] Census of Population (2011) ONS
[5] Claimant Count (July 2014) NOMIS
[6] Claimant Count 18-24 year olds (July 2014) NOMIS
[7] ONS Annual Survey of Hours and Earnings (2013) NOMIS
[8] ONS Annual Survey of Hours and Earnings (2013) NOMIS

4.5 Hourly pay by workplace is lower in each of the Boroughs (except Charnwood) than the County and Regional average. Melton again has the lowest hourly pay rates – highlighting that whilst unemployment is low in the Borough, so are wages. It also highlights the relative insularity of the Borough's economy, with limited differences in wage rates.

4.6 The latest BRES data for Melton shows the total number of workplace jobs in the Borough decreased by 11% to 19,177 between 2008 and 2012, with declines every year[9]. Manufacturing remains the single largest employment category in the local economy (at over 23% of the workforce) although there has been employment growth in sectors that are particularly relevant to the rural economy (albeit from a low base), including:

- Agriculture, forestry and fishing (+100%)[10]
- Accommodation and food services (+6.7%)
- Arts, entertainment, recreation and other services (+1%)
- Mining, quarrying and utilities (+67%)

4.7 These sectors now account for 15.6% of all employment in the District, up from 13% in 2008. The rate for the overall County is 12.7%. The sectors with the biggest job losses in Melton includes information and communication (-44%), professional, scientific and technical (-39%), business administration and support services (-26%), motor trades (-19%) and transport and storage (-19%). However business start-ups began exceeding business deaths in Melton from 2011 onwards and business stock per head of population is also increasing, indicating a growing business base in the District which should lead to a short to medium term increase in employment (see section 4.12).

4.8 By contrast Harborough performed better in terms of economic performance according to the BRES data between 2008 and 2012. The local economy shed only 5.2% of all employment (down to 35,365 workplace jobs). Manufacturing is a much smaller proportion of the District economy at 8.3%, but employment in manufacturing has been growing, increasing by almost 200 jobs over the period with the sector being less reliant on low value output. There has also been growth within three of the four key rural sectors (again from a low base), but accommodation and food services have fallen by almost 20% in Harborough:

- Agriculture, forestry and fishing (+140%)
- Accommodation and food services (-19%)
- Arts, entertainment, recreation and other services (+4.4%)
- Mining, quarrying and utilities (+67%)

4.9 These sectors now account for 12.7% of all employment in the District, up only slightly from 12.3% in 2008 and the same rate as Leicestershire. Harborough has also seen growth in transportation and storage jobs of almost 100% over the period and an increase in employment in motor trades of 42% (both of which were declining in Melton) as major warehousing and distribution activity develops along the M1 corridor. However, there have been high levels of job losses in retail (-54%), business administration and support services (-38%), property (-35%) and public administration and defence (-35%). In contrast to Melton, business deaths still exceed business starts in Harborough, suggesting the economic recovery may be structurally different in the District, being employment led through inward investment into key sites rather than by indigenous SMEs (see section 4.12).

[9] BRES (2013) Broad Industry Classification
[10] This figures for Agriculture, forestry and fishing and Mining, quarrying and utilities are from a relatively small base

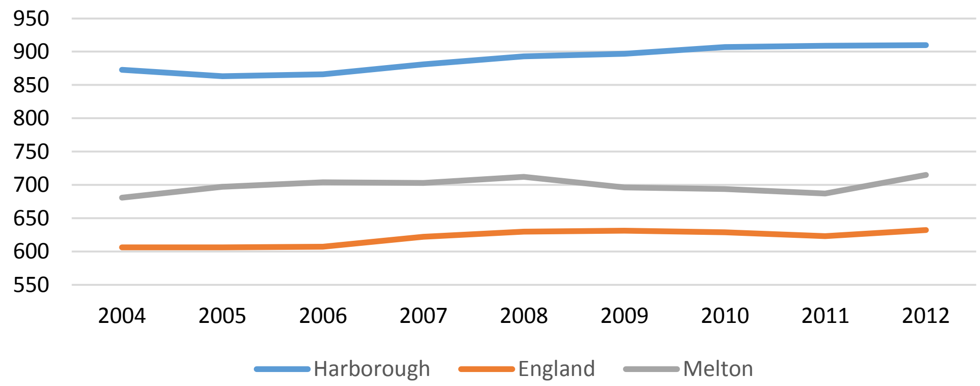
4.10 By contrast employment in Blaby has been increasing since 2010 and since 2011 in Charnwood (although whether this is in the rural economy or not cannot be disaggregated).

4.11 According to the 2011 Census, there are 3,534 residents in Harborough who work from home (5.7% of the workforce) and over 1,956 in Melton (5.3%)[11]. The rate increases to 6.3% and 8.1% respectively when just the rural areas of those districts are incorporated. The respective figures for rural Blaby and Charnwood are 4.3% and 5.6%. The overall rate of homeworking for rural Leicestershire is 5.7% overall and 6.3% across rural England. There is clearly a very significant cohort of rural homeworkers in rural Harborough and especially rural Melton.

<u>Enterprise and Business Demography</u>

4.12 To gauge the level of enterprise and business churn within the East Leicestershire economy, business stock and start-up and death rates have been used for the Boroughs of Harborough and Melton. Data has not been used for Blaby or Charnwood as data is unavailable at levels below District. As identified in Chart 4.1 below, both Harborough and Melton have much higher numbers of businesses per working age population than the rest of England. With some fluctuations, changes in business stock has largely mirrored what has happened across England, although Melton experienced a strong uplift in 2012 after a period of heightened decline between 2008 and 2011.

<u>Chart 4.1 Business Stock per 10,000 working age population</u>



Source: Inter Departmental Business Register (2012) and Working Age Population (ONS)

4.13 Table 4.1 overleaf shows the structure of the business base within the Boroughs within East Leicestershire. The rural districts (Melton and Harborough) have a higher proportion of micro businesses than the county and regional average, with smaller proportions of businesses in larger categories.

[11] Distance travelled to work classification (2011 Census) All usual residents aged 16-74 either in employment in the area, or not in employment but live there. Rural Urban Classification 2011 Census

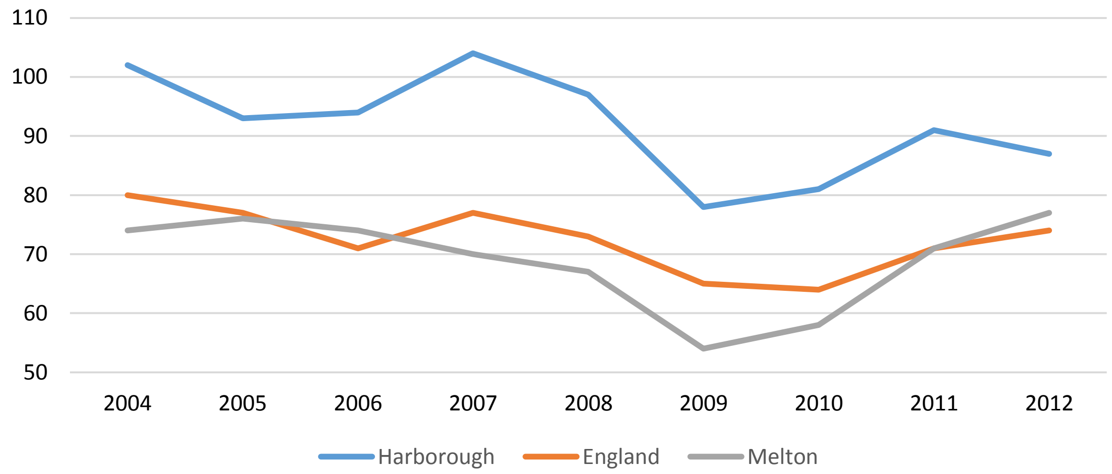
Table 4.1 Business base structure

	Micro (0-9 employees)	Small (10-49 employees)	Medium (50 – 249 employees)	Large (250+ employees)
Blaby	88.7	9.2	1.6	0.4
Charnwood	87.2	11.0	1.4	0.4
Melton	90.9	7.3	1.6	0.4
Harborough	90.0	8.3	1.6	0.2
Leicestershire	88.5	9.5	1.7	0.4
East Midlands	87.6	10.2	1.8	0.4

Source: Inter Departmental Business Register (2012) and Working Age Population (ONS)

4.14 As identified in Chart 4.2 below, business start-up rates in Harborough significantly exceed the rate for England, although have fallen back considerably since their 2007 peak from 104 new businesses per 10,000 working age population to 87 in 2012. Melton has largely been tracking the rate for England, although has seen accelerated growth, recently overtaking the national average and now higher than at any time over the past 8 years. Harborough has a much more dynamic business sector than Melton, with much higher levels of churn.

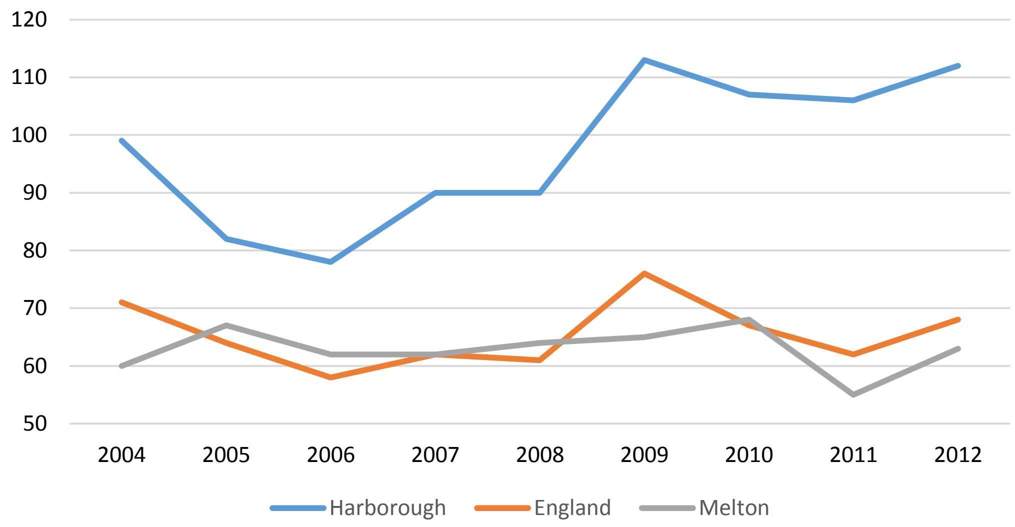
Chart 4.2 Business Start Up rates per 10,000 working age population



Source: Business Demography (2012) and Working Age Population (ONS)

4.15 As identified in chart 4.3 overleaf, business deaths in Harborough are considerably higher than the national average, reaching 112 per 10,000 working age population in 2012 and exceeding the birth rate for every year since 2009, which has contributed to only a limited bounce-back in numbers of businesses in the District since 2008. Melton again has largely tracked the rate for England, but has seen as excess of business births over deaths for the past 2 years.

Chart 4.3 Business Deaths per 10,000 working age population



5 Strategic Context

5.1 The East Leicestershire Workspace Demand Study takes place at a time when partners across Leicestershire have recently finalised their medium term economic plans. This study is part of a process informing an application to secure LEADER resources for East Leicestershire, but also has relevance to the strategic programmes identified below.

Leicester and Leicestershire Strategic Economic Plan 2014-2020

5.2 The Strategic Economic Plan (SEP) sets the framework for accelerating economic growth and public investment over the next six years across Leicestershire. The SEP wishes to "create a vibrant, attractive and distinctive place with highly skilled people making Leicester and Leicestershire the destination of choice for successful businesses". The Strategic Economic Plan is underpinned by local public and private funding and Government investment through negotiated Growth Deals.

5.3 There are several key proposals to stimulate growth within East Leicestershire, including refurbishing Melton Mowbray Cattle Market and developing a Food Enterprise Centre in the town, a town centre investment programme, investing in the County's canal and riverside infrastructure (notably in Harborough District), the development of a workspace development programme and an Accelerated Broadband programme to increase coverage as part of the Superfast Leicestershire programme.

5.4 Within the announced Growth Deal (2015/16) only the Accelerated Broadband programme was selected for initial investment through the Single Local Growth Fund.

Leicester and Leicestershire European Structural and Investment Funds Strategy 2014-2020

5.5 The EU Structural and Investment Funds Strategy (ESIF) forms a framework for investment of almost £120m of EU structural funds into the Leicester and Leicestershire area (including £3m of European Agricultural Fund for Rural Development (EAFRD)), and identifies how these resources can support the delivery of the wider Strategic Economic Plan. Changes in priorities and boundaries mean that many areas of rural Leicestershire will be able to access and benefit from EU Structural Funds for the first time.

5.6 The potential of rural Leicestershire has been identified throughout the Strategy, with rural workspace identified as a priority for EAFRD alongside activity to support farm and non-farm diversification and innovation. Rural broadband has again been identified as a priority and there is also an allocation to support social inclusion in a rural setting.

Leicestershire Rural Framework 2014-2020

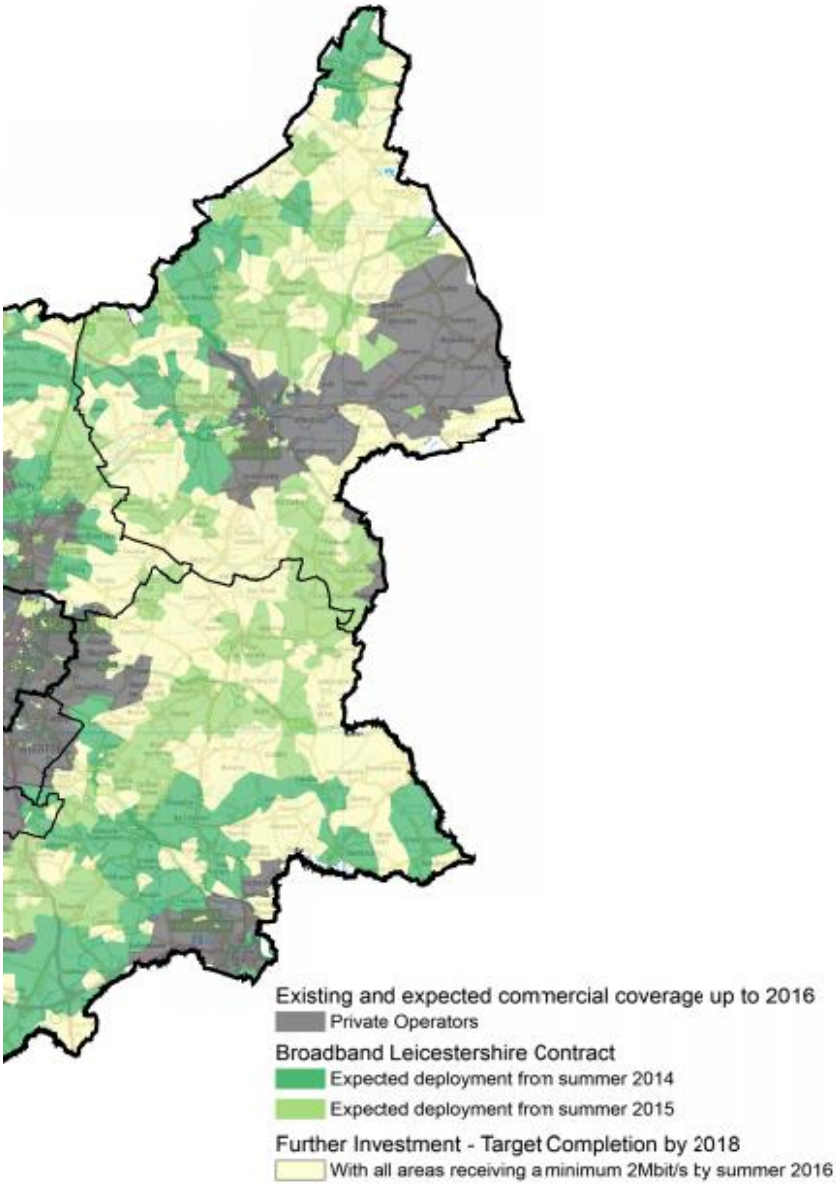
5.7 The Leicestershire Rural Framework (currently out to consultation) provides the framework for the activities of the Leicestershire Rural Partnership. Activity is geared towards securing resources and aligning activities to the priorities of the Strategic Economic Plan and ESIF. Developing enterprising and sustainable rural communities is one of the four key priorities of the draft strategy.

Superfast Leicestershire

5.8 Superfast Leicestershire is an £18.8m project, led by Leicestershire County Council, to bring high-speed fibre broadband to 96% of homes and businesses across the county by the end of March 2016. In total 62,000 will be able to access improved broadband speeds. The current commercial rollout of superfast broadband would only reach 75% of homes in Leicestershire. Superfast Leicestershire is a partnership with BT, Government, District/Borough councils, economic bodies and voluntary organisations and will be partly supported by the European Regional Development Fund. There are a number of areas of benefit within the East Leicestershire. The overall anticipated economic benefit of £92m to the County's economy by 2021. As part of the current BT contract East Leicestershire district councils have contributed over £1m to increase coverage within their respective authority areas.

5.9 The map below identifies the expected coverage delivered as part of the Superfast Leicestershire by spring 2016, with improvements in broadband speeds across much of East Leicestershire, especially around some of the larger villages and settlements. However, currently, there still remains large areas that are only guaranteed 2mbps and are in the longer term plans for coverage. Leicestershire County Council's vision to ensure that all premises can access superfast broadband speeds by 2018. This may require a range of solutions. The County Council, working with the City Council, has initiated a new procurement to increase coverage and will target deployment in more remote rural areas.

Map 5.1 Rural Leicestershire expected fibre broadband coverage to Spring 2016



Source: Superfast Leicestershire (2014)

Employment Land Studies

5.10 A number of recent long term Employment Land Studies have been undertaken that are of relevance to the longer term supply of employment land and workspace within East Leicestershire. In 2013, Leicester and Leicestershire Enterprise Partnership undertook an Employment Land Study, completed by a consortium led by PACEC. This study updated a 2008 review.

5.11 Harborough also has an Employment Land Availability Assessment undertaken in 2013 and Blaby refreshed their Employment Land Review in 2011. Melton Borough Council have their own Employment Land Review, dating from 2006 and during 2013 undertook work in support of the Melton Employment Growth Area, covering similar territory. Charnwood last undertook a direct Employment Land Review in 2006 – although all Districts have been covered in the PACEC study, but in less detail.

5.12 The Employment Land Study provides useful context on employment growth and the pace of new supply into the commercial property market for office and industrial use classes. They are also critical in identifying market supply and failure of property – both currently and into the future.

5.13 The 2013 PACEC report identified long term employment land requirements for office, industrial and warehousing across each of the districts within Leicestershire.

Table 5.1 Forecast Employment Land Requirements to 2031

		Blaby	Charnwood	Harborough	Melton	All
Office Requirements (m^2)	Forecast Requirement	44,900	49,500	11,000	4,000	109,400
	Tier One Supply[12]	35,212	23,273	23,500	7,700	89,685
	Tier Two Supply	14,200	43,557	7,750	-	65,507
	Balance	**4,512**	**17,330**	**20,250**	**3,700**	**45,792**
B1,B2 and small B8 (Ha)	Forecast Requirement	13.5	18.9	19.9	7.3	59.6
	Tier One Supply	3.3	19.7	9.1	-	32.1
	Tier Two Supply	4.7	66.6	6.5	15.1	92.9
	Balance	**-5.5**	**67.4**	**-4.4**	**7.8**	**65.3**
Strategic Warehousing B8 (Ha)	Forecast Requirement	13.8	-	40.9	-	54.7
	Tier One Supply	12.5	-	2.9	-	15.4
	Tier Two Supply	11.3	-	-	-	11.3
	Balance	**10.4**	**-**	**-38.1**	**-**	**-27.7**

Source: Leicester and Leicestershire Housing Market Area Employment Land Study (2013)

5.14 The table previously identifies that there is a general over-supply of employment land within East Leicestershire, although Harborough in particular has a requirement for light industrial sites/premises. The Employment Land Review states there is a considerable over-supply of office space in East Leicestershire (Melton and Harborough) and a larger than expected proportion of the stock is not fit for purpose and is need of longer term renewal. Melton in particular has the oldest office stock in the County, with only limited stock being built recently[13].

5.15 The Employment Land Study has identified a niche role for developers concentrating on new developments of smaller units for leasehold and freehold sale to spread the risk of investment. However, even in these markets there is limited speculative build taking place and most investment is concentrated on prime locations. The Study again highlights that refurbishment is likely to stifle longer term demand for new build due to a general lower level of demand as businesses adapt to the current trading environment by working to higher employment densities and adopting flexible working practices. Lower rents are also

[12] Tier 1 supply is classified as land available for immediate development, Tier 2 has one or more major land development issue (such as planning, advance infrastructure and funding in place for advance infrastructure) Source: Pacec et al (2012) Leicester and Leicestershire HMA Employment Land Study

[13] Pacec et al (2013) Leicester and Leicestershire Employment Land Review, p61

stifling yields for new development, acting as a drag on short term delivery of new business space to the market.

5.16 The 2011 refresh of the **Blaby** Employment Land Study identified there were few rural workspaces available for businesses (across the District – not just Countesthorpe and Kilby) and virtually no industrial units of 0-500m^2. One of the key recommendations of the study was to encourage rural diversification by allowing the conversion of agricultural buildings.

5.17 The 2012 **Harborough** Employment Land Availability Assessment has deemed that potential land for employment sites in rural locations is deemed to be unsustainable and development be geared towards settlements within the Borough. The report highlights high demand for smaller commercial space within rural areas and their role in supporting business starts.

5.18 The report also identified that people who hold existing buildings in good locations in the Borough hold an advantage over developers of new sites. The lack of available free hold sites in Harborough was also raised as an issue. The main demand for Harborough is for large warehousing sites adjacent to the M1, which may crowd out opportunities for mixed use development.

5.19 The 2006 Employment Land Study for **Melton** identified the high level of self-containment within the local economy and therefore property market, with limited inward investment and relatively low levels of out and in-commuting. Again an undersupply of units of reasonable quality under 5,000ft^2 was identified – with a lack of supply of employment land hindering local companies' opportunities to expand.

5.20 The Melton Employment Growth Area report (2012) echoed the findings of the Employment Land Study and identifies Melton has the oldest stock of property in Leicestershire. A summary of enquiries from the Leicester and Leicestershire Enterprise Partnership property portal between 2010 and 2012 identified that over 52% of enquiries were for industrial premises below 1,000ft^2. The report also recognises the similarity of enquiries with Harborough.

5.21 The **Charnwood** Employment Land Study identified many sites within the Borough in rural locations were of average or poor quality. Sites within village centres deemed as poor quality with poor access were recommended for release from employment uses.

6 Stakeholder Perceptions

6.1 The general views of stakeholders have largely mirrored the quantitative findings of this study. Rural East Leicestershire has relatively high land values which can act as a barrier to small developers investing in property, especially in a rural context. The area is also very rural which can bring planning and access issues and older, smaller or poorer quality business premises (or buildings suitable for conversion) which make it financially difficult for new workspace projects to be commercially viable.

6.2 There is a general consensus that there is a high level of entrepreneurship within the rural economy, but that workspace availability is a major barrier to business and subsequently employment growth. Whilst there is space available, it is often not of the right quality and has very poor broadband connectivity – both of which can make it unappealing to businesses, especially in the service sector. Particularly in Harborough, the growth of the transport and logistics sector was felt to be crowding out investment into office development, which was felt would create gaps in the market longer term for quality developments in good locations. Anecdotally stakeholders felt many businesses were relocating out of the area or artificially stunting their growth due to the factors identified above.

6.3 Many land/property owners are looking to secure tenants down into long term deals to reduce the high levels of risk currently present in the property market. This can also act as a barrier to businesses who want more flexible terms. There was a general view that activity to support bringing more rural workspace to the market should be a component of any LEADER programme and should continue to play a strong role within the Rural Development Programme for England.

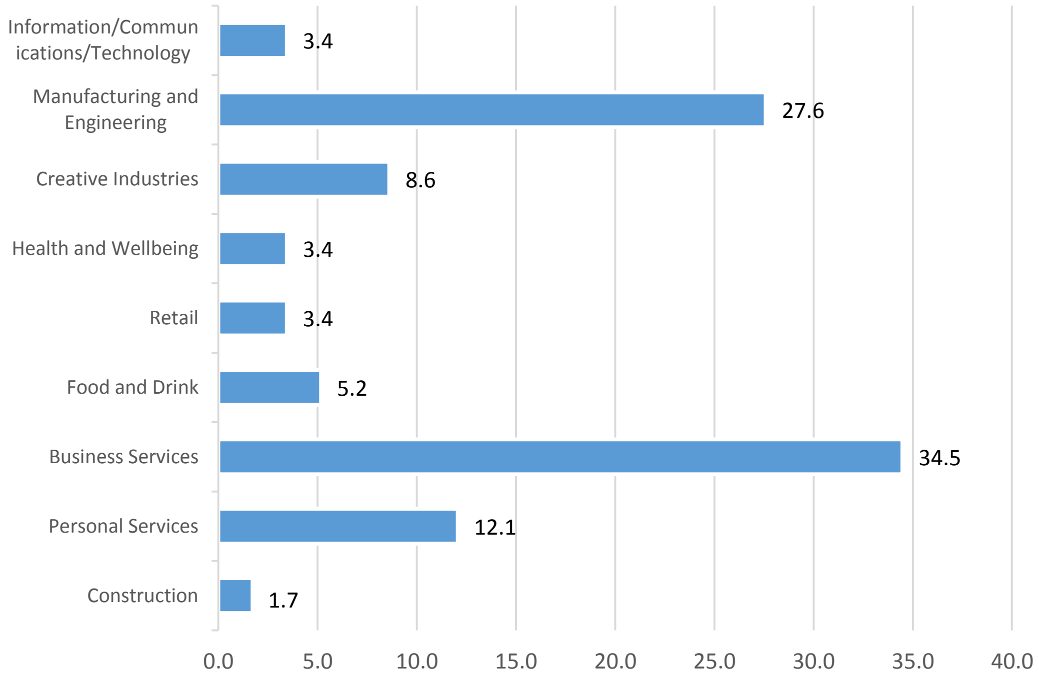
6.4 Much of the demand for workspace and the driver for many of the workspace projects delivered to date have been based upon businesses or farms wanting to diversify and converting buildings to meet their own entrepreneurial needs. Examples included the development of the dairy complex at Long Clawson and Manor Farm Feeds in Owston. This had also been deemed a good way stimulating job creation in the local economy as the new business activity was generally an expansion of an existing successful business or activity.

6.5 There was also a view that any investment into farm diversification to develop business workspace needs to be carefully considered as often there is a conflict between agricultural use and non-agricultural use and business space (especially office based) can be unappealing to the market in these locations if not sensitively developed. There was a view that a lot of unappealing properties are getting 'stuck' on the market for these reasons. An example of where this has been successful was deemed to be Burrough Court in Burrough on the Hill.

7 Findings of the Business Surveys

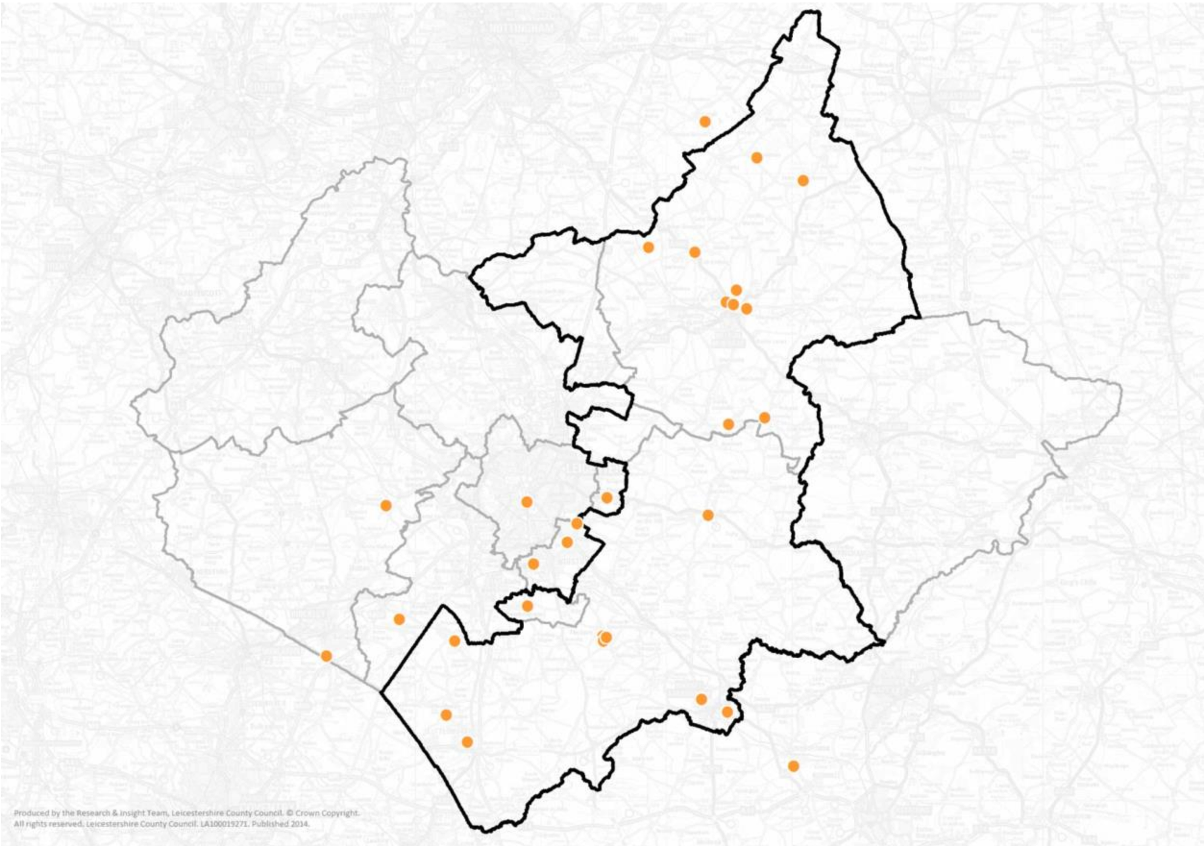
7.1 A total of 58 businesses responded to an online survey. The survey was designed to understand current and future property requirements, the key criteria for property that businesses have and to understand any likely churn in the property market from businesses wishing to re-locate over the next two years. To further complement the findings of this survey, a further 16 rural landowners completed a similar survey (74 cumulative responses) to understand similar issues but from their perspective. The survey was responded to by a broad typology of businesses, with the most common sectors being business services and manufacturing and engineering.

Chart 6.1 Business types completing the survey



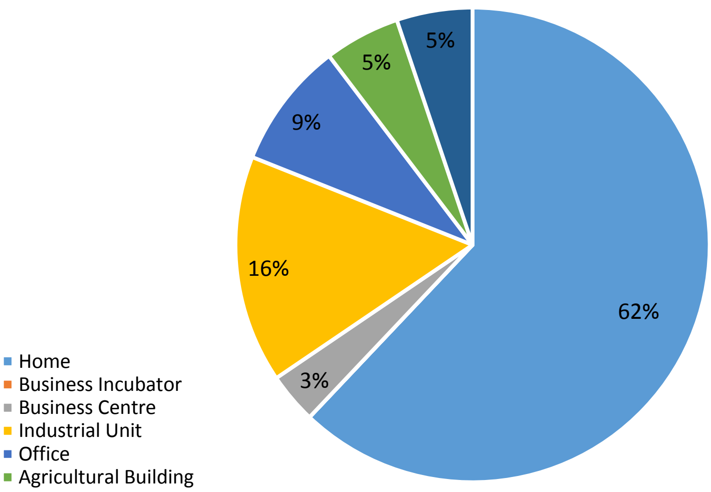
7.2 Overleaf, Map 7.1 locates respondents to the business survey, showing a broad geographical spread of responses across the East Leicestershire area, with a few businesses respondents being located in proximate areas.

Map 7.1 Locations of businesses responding to the Business Survey



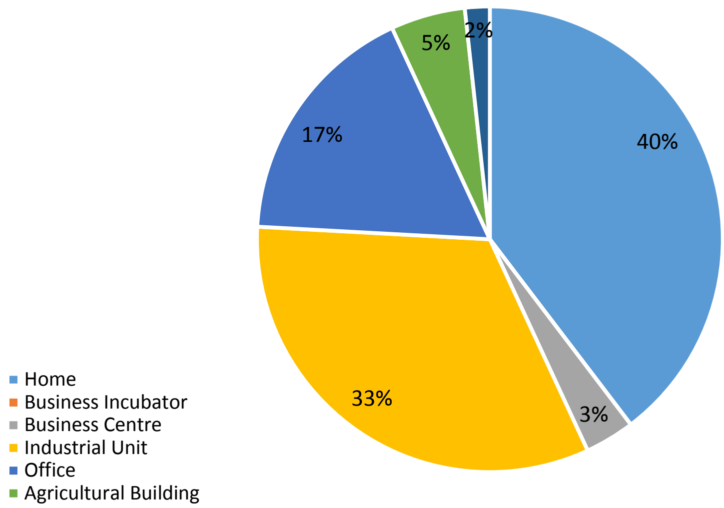
7.3 A total of 57% of respondents were micro-businesses with under 5 employees and 67% had less than 10. At the other end of the scale 22% of businesses had more than 20 employees. There is a slight bias towards larger businesses in the business survey, as around 90% of businesses in the area have less than 10 employees. As identified in chart 7.2 below, 62% of businesses started trading from home, with 16% starting from an industrial unit. No businesses began trading in a Business Incubator, reflecting a lack of provision in the area.

Chart 7.2 Location where business started



7.4 Chart 7.3 below identifies the current location of businesses, of which 40% are trading from home. This suggests that of the 62% of businesses that started trading from home, a total of 39% of businesses subsequently progress to requiring some form of premises, of which over half (or 22% of all home start businesses) need industrial premises, with the remainder (17%) in other types of premises.

Chart 7.3 Location where business is currently trading



7.5 The main business location factors were deemed to be good Broadband (86%), Value for Money location (84%), easy tenancy agreements (55%) and proximity to home (53%). Proximity to customers/suppliers were relatively low on the list of priorities as was being based in an attractive rural location. Outside of businesses based at home, there was no real pattern for distance travelled from home to the business, with over half of the non home based businesses travelling over 5 miles to work.

7.6 Of relevance to the demand study was that 43% of businesses thought they may need to relocate within the next two years. Businesses were asked whether they felt there was a good supply and choice of appropriate workspace within a 10 mile radius of their business, to which only 27% felt there was. Of the businesses who indicated they were planning to relocate within the next two years, only a third felt there was an appropriate supply of workspace and anecdotally many said they were considering relocating because of slow download and upload broadband speeds. Proposed alternative locations included Nottingham, Grantham and Loughborough. However many businesses were also considering other areas in East Leicestershire with better broadband, notably Market Harborough, Buckminster and Melton Mowbray.

8 Overview of Currently Available Workspace

Property Agents

8.1 A total of 22 property agents that are active within the area of East Leicestershire have been approached to understand their views on the market conditions across East Leicestershire, to review the types of available properties and understand the types of enquiries that are being received. This element of the study has also included undertaking a review of their currently available stock.

8.2 One of the key characteristics of the rural property market is the high number of properties that are let 'under the radar' and do not involve agents due to the small scale or low rents charged, although it is not possible to quantify this. Property agents in East Leicestershire have tended to deal with properties at the top end of the market. With regards to new space coming onto the market in the more rural areas, there is a general pattern of low intervention conversions of agricultural buildings into storage facilities (for both agricultural and non-agricultural use) that do not generate the returns for commercial agents to take onto their books.

8.3 Regarding office and industrial premises, they tend to let well in areas with better broadband and good access to at least the B-road network – which is one of the main questions asked by perspective tenants/purchasers, and corroborates the findings of the business survey.

8.4 The main demand for property in terms of enquiries (both office and industrial) is for under 1,000ft^2, especially under 500ft^2. There is a slightly stronger demand for industrial/ workshop premises of this size in East Leicestershire than for offices (although there is a shortage of suitable supply for both types of premises of this size). Larger units of over 5,000ft^2 are generally seeing stifled demand, in line with the findings of the Employment Land Study. There also appears to be a strong churn in the demand for property, with agents stating they generally have 20% of their available property at any one time under legal instruction, with the major agents averaging 25 property deals per annum.

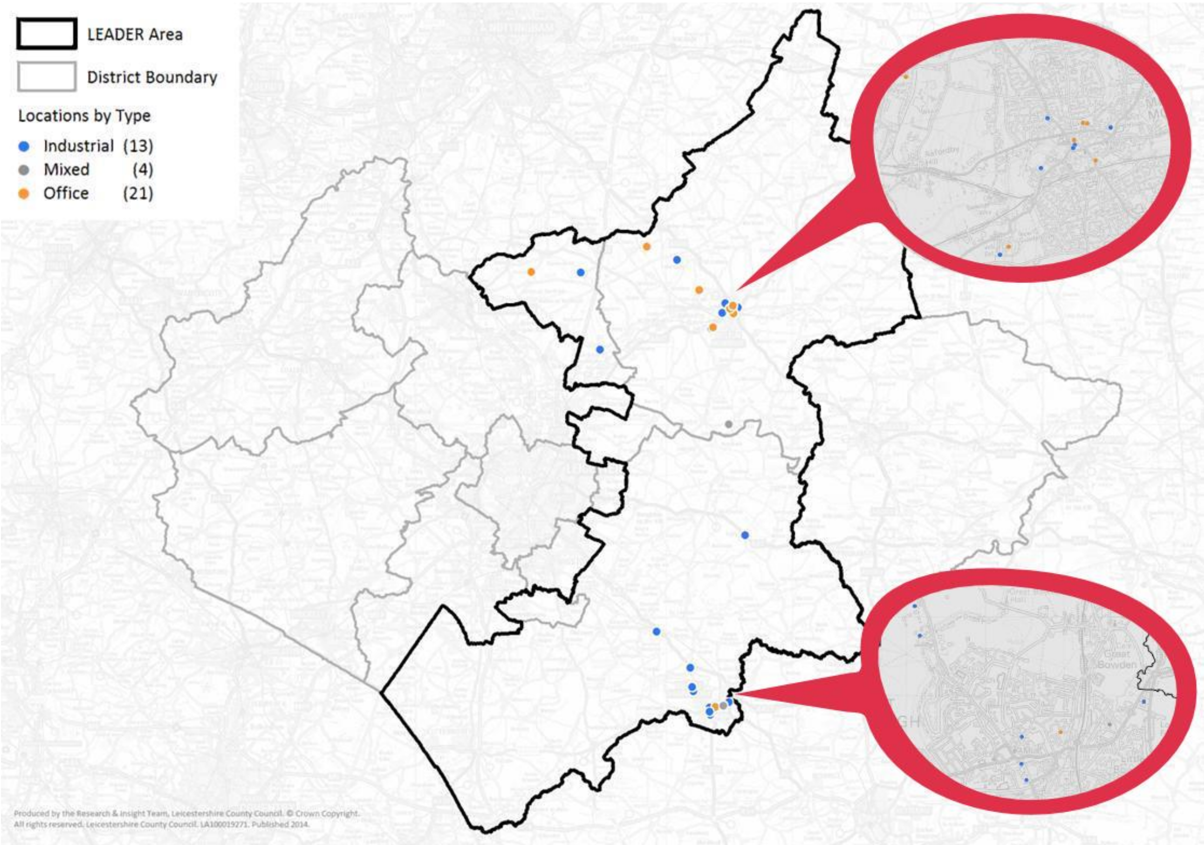
8.5 Presently there are no incubation facilities within rural East Leicestershire, although there are some private business centres in the two market towns and there is now an Innovation Centre in Market Harborough, operated by Oxford Innovation (and a similar facility over the Lincolnshire border in Grantham). There are other private sector facilities in the area including The Maltings (Wartnaby), Crown Business Park (Old Dalby), Burrough Court, (Burrough on the Hill), Wymeswold Industrial Park, Welland Industrial Park and Airfield Business Park (near Market Harborough) and Oak Enterprise Park in Rutland to name a few.

Case Study: Harborough Innovation Centre, Airfield Business Park, Market Harborough

Harborough Innovation Centre was completed in 2011, offering 23,000ft^2 of office and studio space for up to 53 companies. The Centre was developed with £4.2m of investment, including European Regional Development Fund and stands at the entrance to the new Airfield Business Park just outside Market Harborough. The centre offers a range of meeting and conference facilities, alongside onsite business support and coaching. A high-speed broadband network has been installed to ensure business growth and innovation. The Centre is owned by Harborough Borough Council and managed by Oxford Innovation Ltd. It is currently over 90% occupied.

8.6 The map below highlights where there are currently properties available or multi-tenanted workspace/business centres within the East Leicestershire area, including in the market towns of Market Harborough and Melton Mowbray, where most of the available property is located. The properties are taken from vacancies stated by a range of property agents as of October 2014 and are currently available for rent. It only includes properties that are under 5,000ft^2 and some of the sites are business parks/multi-tenanted businesses with more than one unit available.

Map 8.1 – Location of advertised Vacant Industrial and Office accommodation across East Leicestershire (Oct 2014)



8.7 Whilst there is some private sector supply of workspace in the rural economy in East Leicestershire – it is either geared up to premium developments or at the very lower end of the market whereby small investments enable buildings to be used for storage (and therefore not creating any jobs).

8.8 As a general conclusion, the main supply of currently available property that is well advertised is larger than 500ft^2 and concentrated within the two main market towns. Whilst there is some property available below this level, it is generally not advertised through property agents and this is where much of the demand lies. This supports the findings of the business survey that identified most businesses did not think there was a suitable supply of premises within 10 miles of their business.

8.9 There is clearly a strong potential supply of additional workspace into the rural East Leicestershire market (based on responses to the Landowners survey, discussions with agents and feedback from the work undertaken by Rose Regeneration) and as identified in section 9, there is also demand from potential occupants.

9 Future Demand for Workspace

9.1 As identified in section 7, around 40% of businesses require some form of premises when they start trading, with 60% of businesses starting from home. Of these businesses starting from home, around 40% then progress to having property requirements.

9.2 Table 9.1 below provides estimates for the likely demand for additional workspace over a five year period. The estimates are partly based upon fluctuations in start-up and business death rates, drawn from Business Demography. Column A represents an annualised average business start rate based upon the last 5 years of Business Demography data. On this basis, each year across the East Leicestershire area an average of 750 business starts would be registered in East Leicestershire per annum[14]. The number of additional business starts are then apportioned across the type of property that businesses that completed the business survey said they began trading in (section 7.3).

9.3 Column C of Table 9.1 represents business deaths, but with businesses allocated against the type of property they stated they were currently trading in (section 7.4). The average number of business deaths across East Leicestershire is 691 per annum. As identified within the table, most business failures would still be trading from home.

9.4 Column B looks at churn within the property market as businesses change their property requirements from when they start trading to becoming established. This is based upon the changes between where businesses stated they located when they started trading and where they are currently trading (based on the findings of the business survey). It also incorporates an amalgamated survival rate for businesses drawn from Business Demography (with 47.8% of businesses still being active from 5 years previous[15]).

9.5 Table 9.1 models the changes that may be happening within the East Leicestershire rural property market based on new start businesses and the impacts of business failures. It is unlikely to capture the net effects of changes that more established business may have on the rural property market and also the effect of businesses relocating into and out of the area. However it gives a general idea of some of the longer term property demand trends from indigenous businesses.

[14] Business Demography (2012) ONS. Totals for Blaby and Charnwood have been apportioned
[15] Business Demography (2012) ONS.

Table 9.1 Model of Business Start Ups and their property requirements over time

	A	B	C	D
Business Premises Type	**Annual Start Ups**	**Annual Churn**	**Annual Deaths**	**Balance**
Work at home	466	-142	-274	49
Business Incubator	0	0	0	0
Business Centre	26	12	-24	14
Industrial Unit	116	117	-226	7
Office	65	62	-119	7
Agricultural Building	39	19	-36	22
Other	39	6	-12	33
Total	**750**	**75**	**691**	**133**

9.6 As identified, the overall number of businesses requiring property is increasing by 84 units per annum (incorporating 49 businesses trading from home). Much of the increase in demand is for agricultural based premises and 'other', but each category of premises sees some form of annual increase.

9.7 Incorporating the findings of the business surveys and discussions with commercial property agents, it is clear much of this extra demand will be for much smaller units. However, as previously stated, this excludes any demand from any businesses locating into the area which may have different requirements. This likely requirement goes against what the market is currently providing and what constitutes the stock of currently available and advertised properties.

10 Future Supply of Workspace

Employment Land Supply

10.1 In theory the increase in demand for number of business units could, as identified in section 9, be satisfied from the excess of supply of strategic employment sites. However, it is deemed that this long term provision will be more geared towards businesses relocating into the area and will satisfy only some of the requirements of growing nascent businesses. If some of the 'tier two' development sites identified in section 5.14 cannot be brought to market over this period then over all there will be a projected deficit in employment land.

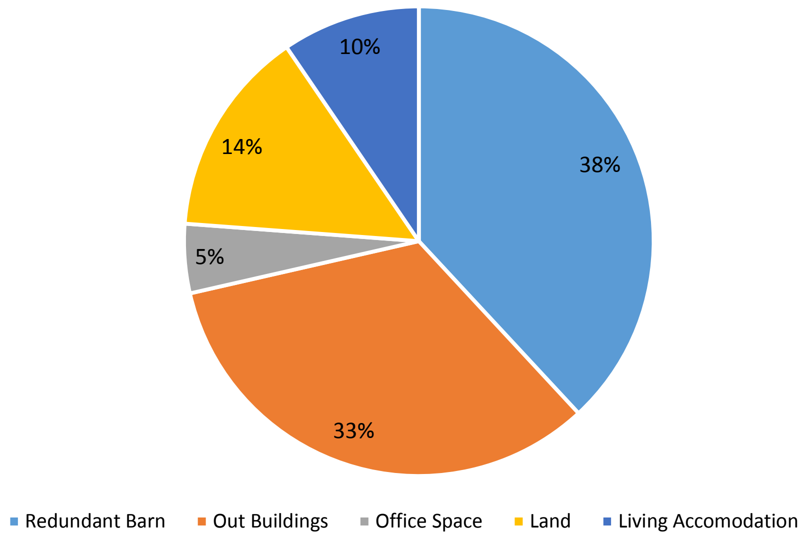
10.2 As identified, much of the additional employment land will be available within the larger settlements, notably Market Harborough and Melton Mowbray. Based on the findings of the review of current property availability, this is also where much of the current vacant property lies, further compounding a lack of suitable business accommodation in the more rural parts of East Leicestershire and acting as a potential drag on the rural economy.

Landowners

10.3 A total of 16 survey responses were received from rural landowners. Results from the landowner survey suggest 69% of landowners had some property within their estate that was redundant or under-utilised that they had considered turning into workspace. Although it must be noted this response is from a relatively small sample and there is an inherent likelihood that landowners with potential projects are most likely to complete the survey.

However, a similar extent of opportunity is also reinforced by the Leicestershire Rural Estates Study, which was undertaken in 2012.

Chart 11.1 Types of redundant land/buildings available



10.4 Chart 11.1 suggests there is a good potential supply of rural property available to come forward for projects, with over 70% of redundant property being barns or outbuildings. In terms of reasons why these projects had not yet come forward, the main reasons cited were insufficient finance (55%), followed by not being able to generate sufficient return (17%) and lack of demand in market place at the moment (11%).

10.5 Planning restrictions were mentioned as major barriers, but only in specific cases by some landowners. One of the requirements of the study for Leicestershire County Council was to understand if there would be any major planning barriers for workspace achieving planning consent, most notably the conversion of agricultural buildings to commercial uses (nominally B1/B2 and B8). This has been identified as a major barrier previously and has led to the production of a Rural Economy Planning Toolkit.

10.6 The study has looked at the planning portals for Melton and Harborough since 2008 for change of use applications. In total there were 13 such applications in Melton (of which 10 were permitted) and 40 applications in Harborough (of which 19 were permitted – but this includes many re-submissions). Whilst the study cannot really comment on individual planning cases, there does not appear to be a major barrier to conversion of agricultural buildings through the planning systems.

10.7 The findings of the landowner study and other documentation suggests there is clearly a potential supply of workspace that LEADER or other programmes could support, but there may be a requirement to support these projects with public intervention to either prove their viability, fast track their delivery, de-risk the early stages of their development or support their wider marketing approach.

Rural Estates

10.8 Rural estates in East Leicestershire will have a key role to play in any future workspace provision. A 2012 study into rural estates in Leicestershire identified that across the County, rural estates managed and hosted over 200 businesses with a combined employment of almost 800 jobs. With regards to future workspace opportunities, they have the scale of operation to offer more flexible rental terms to businesses, have a portfolio of premises suitable for creating additional workspace and have an existing track record such as estates like Buckminster and Belvoir.

Case Study: Buckminster Yard, Buckminster

Buckminster Yard in Buckminster Village is a courtyard development of eleven Grade A offices, totalling 6,500ft^2. It was completed in 2012 and was 85% occupied off plan. The facility is now fully occupied. The project was supported by the Rural Development Programme for England.

A major feature is the link to the Buckminster Estates 100mbps broadband, which has attracted a range of more knowledge intensive businesses including a digital design agency, a planning consultancy and business services. Furthermore, a wireless network has been built covering estate villages to support home-based businesses and ensure effective working from home. The design has exemplary environmental credentials, incorporating a biomass heater and rainwater harvesting.

a

Managed Workspace, Business Incubation and Innovation Centres

10.9 Outside of Harborough Innovation Centre, there is limited public or third sector provision of managed workspace and no business incubation facilities within East Leicestershire. This type of provision can have a major role to play in stimulating business start-ups, increasing survival rates and supporting specific sectors. It can also provide the flexible types of tenures that businesses are seeking within East Leicestershire. Outside the longstanding proposals to develop a Food Enterprise Centre in Melton Mowbray, there are currently no major public sector driven proposals to provide this type of facility.

Case Study: Melton Mowbray Food Enterprise Centre

Melton Borough Council are currently exploring options to develop a Food Enterprise Centre within Melton Mowbray, possibly linked to the redevelopment of the Cattle Market in the town. The centre would accommodate a range of food and drink businesses, provide on-site business support and a range of training opportunities. The findings of the business plan included 71% of potential tenants identifying they would require units of under 500ft^2.

10.10 It is recommended that support for multi-tenanted buildings be the territory of investment for the Rural Development Programme for England and wider resources available under the Strategic Economic Plan, but that these should be relatively localised facilities. The most likely need longer term will be for small industrial courtyard developments rather than further projects on a par with Harborough Innovation Centre. The outcome of any LEADER programme award is unlikely to have the ability to invest in larger scale capital projects, although there may be a role in stimulating and understanding the feasibility of future projects.

11 Conclusions and Recommendations

11.1 This study has identified a growing business base within East Leicestershire which is gradually translating into additional demand within the rural and urban property markets. Without adequate provision of workspace for growing businesses there is likely to be a drag on economic and employment growth. The evidence within the report suggests the rural East Leicestershire economy is very diverse and there are a wide range of sectors and opportunities for people to start a business in.

11.2 If current market trends continue into the future, the market alone will not fill the identified requirements for property for SMEs and micro businesses. Current market trends are for design and build properties and investment that is going into high quality 'rural destination' developments that can command premium rents and are generally available on longer term leases. This is due to several issues including:

- the relatively high cost of land,
- some restrictions through planning opportunities, and
- high development costs given the age and condition of some of the premises that are being redeveloped.

11.3 At the other end of the market, there are lower level interventions that create low grade space that are used for uses such as storage (and therefore not creating any jobs) or are extensions of existing farming businesses. There is a gap for reasonable quality but affordable business space on easy-in, easy out terms.

11.4 There is clearly a strong potential supply of additional workspace into the rural East Leicestershire market (based on responses to the Landowners survey, discussions with agents and feedback from the work undertaken by Rose Regeneration) and there is demand from the following potential occupants:

- Businesses and entrepreneurs that want to graduate from home
- Businesses and entrepreneurs who wish to travel within a 10 mile radius for work
- Farm and rural diversification into fields such as tourism, food and drink and rural services

11.5 There is a gap in the market for small units under 1,000ft^2 (B1 and B2) that are affordable and have good access to broadband – which is top of the shopping list for businesses when they seek a rural business location. However, many of the potential projects are on or adjacent to agricultural sites, with issues of noise, poor access and incompatible uses for some business types. Development would need to be sensitive to these issues.

11.6 There is a strong potential supply of workspace into the market, with many landowners having properties that could be converted or developed into commercial uses. The main barriers to developing additional small scale workspace in rural areas across East Leicestershire were mainly financial, with projects unable to generate sufficient return on investment (especially in the current climate) or projects unable to raise the required investment. There is clearly a market failure and a case for public intervention.

11.7 We feel there is also a strong focus for the LEADER programme with regards to stimulating the supply of workspace in East Leicestershire. Given the potentially limited resources we feel the programme should concentrate on the following points:

- Consider a broader remit that investment in bricks and mortar and looks at issues such as access, signage, soundproofing and making properties more attractive to potential tenants (including those currently 'stuck' on the market).
- Support innovative ways of marketing premises to new start micro businesses
- Link capital investment to business development resources and/or fund and support activity where proposals are based on farm diversification.
- Make smaller scale micro investments linked to job creation/safeguarding and business development with an investment limit of £30,000
- Ensure that in any application process, the project proposer has a clear idea of demand or has identified a potential end user(s)

11.8 There then remains a potential larger scale opportunity to develop 'courtyard' style developments that offer mixed use industrial and office use and this may be a focus for larger scale funding opportunities through the Strategic Economic Plan and the EAFRD. There is an opportunity to look at a Business Incubation model to stimulate business start-up and try and reduce business failure rates.

11.9 Whilst geographically there are no real areas that should be targeted for investment, much of the longer term provision in the area is either available or planned for Market Harborough and Melton Mowbray – so it is recommended LEADER investment be concentrated outside the two market towns. It is suggested that intervention to support workspace should be supply led, based on suitable projects, rather than geographically targeted.

Appendix A – List of Output Areas in LEADER application – Charnwood and Blaby

Blaby:

E00130016

Charnwood:

E00130337
E00130543
E00130544
E00130553
E00130559
E00130696
E00130697
E00130698
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