

Start-Up Workspace Demand Study

North West Leicestershire District Council Final



Contents

1. Introduction 1

2. Context 3

3. Workspace models 7

4. Economic and business growth 10

5. Commercial property review 18

6. Conclusions and next steps 31

Annex A: List of consultees A-1

Contact:
Ryan Macindoe
Tel: 0161 475 2104
email: rmacindoe@sqw.co.uk

Approved by:
Stephen Pritchard
Director
Date: 16/12/2020

1. Introduction

1.1 SQW has been instructed by North West Leicestershire District Council (NWLDC) to undertake a demand study of workspace for start-up businesses in North West Leicestershire (NWL). The purpose of this report is to understand more about the levels and nature of demand for start-up workspace in the district. This study will form part of the economy evidence-base for the NWL Local Plan Substantive Review.

1.2 The objectives of the demand study are to determine:

- nature of supply and demand for start-up workspace in the district
- trends in the provision of small-scale workspace nationally and locally
- benefits of the different workspace models, including co-working spaces, incubators and accelerators and serviced offices
- importance of start-up businesses and workspaces to the local economy.

Definitions and parameters

1.3 At the outset, it is useful to define the terms and concepts used within the study.

- In terms of **business size**, this study focuses on start-up businesses, which SQW define as a micro-business¹ in the early 'start-up' stage of the business lifecycle. SMEs² in NWL have a low number of employees with 82.3% of all SMEs in having fewer than nine employees: and 69.6% of all SMEs having fewer than five employees. Therefore, our primary focus is on micro-businesses.
- In terms of **land uses**, this study is focused on office and light industrial uses³. This includes the range of uses within Class B1 including B1(a) office uses, Class B1(b) research and development uses and Class B1(c) light industrial uses. This encompasses a broad range of sectors and types of activity; however, we have excluded from our analysis requirements for retail, leisure, food and drink and logistics space.
- In terms of **accommodation size**, recognising our focus on micro-businesses, we have limited the scope of this study to facilities providing office accommodation of up to 50 sq m (550 sq ft), and light industrial up to 100 sq m (1,010 sq ft) per business. This is generally consistent with the employment density assumptions within the Homes and Communities Agency (HCA) employment density guide (3rd Edition):

¹ Micro-business defined as a business with between 1 and 9 employees, as per BEIS, Business Population Estimates 2020

² SME defined as a business with between 1 and 249 employees, as per BEIS, Business Population Estimates 2020

³ Up until September 2020 these were recognised as use classes B1 and B2, but offices (B1) have now been reclassified as use class E.

- Co-Working or hot desking – 10-15sqm per FTE (B1a – The range varies due to different ‘membership’ models allowing access for different amount of time
- Managed Workspace involving letting/licensing small workspaces with central management services and often with shared facilities – 12-47sqm per FTE (B1a, b, c)

Based on the prevalence of micro-businesses in NWL, the employment density assumptions within the HCA guide and experience in similar studies elsewhere, the workspace size limits are considered appropriate to meet the objectives of this study.

- This study considers a broad range of **start-up workspace** options, to include different types of accommodation, from ‘business incubation’ facilities (which generally offer active support for growing businesses, with a sector focus and a time-limited accommodation offer) through to ‘generic’ small business units offering a combination of office, light industrial and storage space.

Report structure

1.4 This report is structured as follows:

- **Section 1: Introduction** – provides a brief introduction to the instructions, the purpose of this report, and the parameters and definitions of the study.
- **Section 2: Context** – provides an overview of the study’s context, with a focus on identifying key policy drivers at national, regional and local levels, as well as commentary on the impact of COVID 19.
- **Section 3: Workspace models and trends** – provides an overview of workspace models.
- **Section 4: Economic and business growth** – focuses on establishing potential demand for new start-up workspace through a review of NWLs economic context, including sector strengths, growth in the business stock and evidence of entrepreneurship.
- **Section 5: Commercial property review** – considers commercial property transactional evidence to assess the demand for start-up workspace in NWL and consultation evidence.
- **Section 6: Discussion and conclusion** – pulls the preceding chapters together to establish the level and nature of demand for start-up workspace in NWL.
- **Annex A: List of consultees**

2. Context

This chapter provides an overview of the contextual backdrop to this study. Firstly, there is a review of national, regional and local policy drivers, identifying key priorities and objectives and a discussion on how these are relevant to this study. Secondly, commentary on the impact of COVID 19 is provided based on a review of recent studies undertaken by national property agents.

National policy context

- 2.1** The requirement and demand for start-up workspace for North West Leicestershire sits within a much wider, supportive policy context.
- 2.2** At a national level, the UK Government has made the transformation and repositioning of the economy a fundamental priority. Seeking to position the UK's economy as a world leader in specific, innovative, high-value sectors has been identified as a priority in the context of the UK's pending departure from the European Union. It will no doubt continue to be an important priority as and when the COVID-19 pandemic eases, and focus is returned to reinvigorating the economy following this unprecedented economic shock. Specifically, the UK government has identified five overarching priorities for the economy:
- *The world's most innovative economy*
 - *Good jobs and greater earning power for all*
 - *A major upgrade to the UK's infrastructure*
 - *The best place to start and grow a business*
 - *Prosperous communities across the UK⁴.*
- 2.3** The direction of travel set by the UK Government is one that prioritises both public and private investment in research and development (R&D), emphasises the importance of fostering innovation, catalysing the conversion of ideas and research into commercialised propositions and developing the infrastructures and ecosystems to support this growth. Start-up workspace provision is fundamental to achieve these national governmental priorities and has a central role in driving innovation and supporting business development and growth.

Regional policy context

- 2.4** The UK Government's 2017 Industrial Strategy White Paper included a commitment to agree Local Industrial Strategies to deliver economic opportunities at a local level, at the same time as making a firm commitment to Local Enterprise Partnerships (LEPs). This was followed by

⁴ Industrial Strategy: Building a Britain fit for the future (HM Government, 2017)

the release of a paper setting out the detailed roles and responsibilities for LEPs⁵. This included confirmation that LEPs would be the vehicle for preparing and delivering Local Industrial Strategies (LIS), with further detail then outlined in a follow-up policy prospectus⁶.

- 2.5** LEPs had previously been identified by the government as the vehicle for deploying local growth funding on the basis of Strategic Economic Plans (SEP); the purpose of the LIS are to build on this work, to continue to act as a gateway for identifying and deploying local growth funding, but structured around the newly defined national objective of increasing economic productivity, albeit defined in a local context.
- 2.6** Leicester and Leicestershire Enterprise Partnership (LLEP)'s LIS is currently under development. The 2018 prospectus identified that a key focus for enabling sector growth is to develop high-quality incubator and grow-on space for SMEs to grow and innovate⁷. LLEP is committed to invest capital into towns to enhance the appeal for businesses locating in towns and rural communities with LLEP area. One of the headline outcomes of the European Structural and Investment Fund Strategy is to support 1,000 new start businesses and improve the survival rates of local companies⁸.
- 2.7** Leicester and Leicestershire Strategic Economic Plan (2014-2020) sets out clear objectives to enhance innovation by increasing the proportion of businesses with research and development (R&D) spend and knowledge-intensive employment relative to the national average. In order to do this, the SEP sets out a series of innovation support programmes, with a particular focus on supporting SME innovation and high technology start-ups through the Business Growth Hub – a comprehensive support system including online and face-to-face advice, funding and skills support –, seed investment funds and knowledge transfer partnerships with the higher education sector. Moreover, high growth start-ups support are linked to managed offices that provide on-site support and advice, indicating the importance of a support ecosystem.

Local policy context

- 2.8** North West Leicestershire's Economic Growth Plan identified business growth and strong productivity as a key core principle to develop economic growth, resilience and local opportunities across North West Leicestershire. This includes ensuring that adequate premises are available for businesses to locate, grow and expand⁹. North West Leicestershire identify that whilst suitable workspace is essential to bring business into the local area, the support ecosystem is equally as essential to aid business growth, in particular during the higher risk early stages of a business's development. Another key objective is to encourage entrepreneurial activity within the local area by delivering business start-up workshop

⁵ Strengthened Local Enterprise Partnerships (Ministry of Housing, Communities and Local Government, July 2018)

⁶ Local Industrial Strategies Policy Prospectus (HM Government, October 2018)

⁷ Local Industrial Strategy Prospectus (Leicester and Leicestershire Enterprise Partnership, July 2018)

⁸ Leicester and Leicestershire Strategic Economy Plan 2014 – 2020 (Leicester and Leicestershire Enterprise Partnership, 2014)

⁹ Economic Growth Plan 2019-2021 (North West Leicestershire District Council, 2019)

programmes. This indicates a clear commitment to support start-up businesses through extensive business advice, support and ensuring premises are fit for purpose.

Workspace in the context of COVID-19

- 2.9** The following provides a brief overview of the impact COVID-19 has had on office and industrial workplaces. The pandemic and lockdown restrictions has had, and will continue to have, a significant effect on workplace and industry behaviours. More people are now working from home which is shifting how employers view office space, while changing consumer behaviours and confidence is accelerating the prevalence of online shopping which is generating demand for more distribution space and so called ‘fulfilment’ centres. Further, consultation evidence suggests that the uncertainty surrounding employment at larger companies may also be encouraging entrepreneurship.
- 2.10** The national lockdown imposed by the UK Government in response to the COVID-19 pandemic began on 23 March 2020 and in different forms is substantially remained in place at the time of this report. Aside from the broader economic impacts on supply and demand the effects of lockdown on working practices were immediate, dramatic and unprecedented. Some sectors were unable to continue working, such as, retail, hospitality, aviation and travel, construction and the arts, all of which were heavily affected, with many being unable to work remotely. However, other sectors, including many of those based in offices, were forced to transition to remote working, with this transition being forced to take place within an unprecedentedly short space of time.
- 2.11** It is too early for a clear picture to have emerged regarding the ‘new normal’ in terms of working practices. However, there are clear indicators regarding potential directions of travel and key emergent themes relating to working practices, the role of the workplace, potential implications for workplace design, along with differential impacts and emerging trends across different sectors and locations.

Implications for office space

- 2.12** In April 2020, approximately 46.6% of the UK’s working population worked from home; 86% of those working from home were doing so as a result of the pandemic. For comparison, the ONS reported that on average 5.1% of the UK’s workforce principally worked from home in 2019¹⁰. In April 2020 the East Midlands region had 45.1% of people working from home¹¹. By August, the proportion of homeworking across the UK had only reduced to 39%¹². UK workers have been demonstrably slower to return to their previous workplaces than other European countries, and the UK Government is increasingly emphasising the importance – specifically in economic terms – of employees needing to return to their offices¹³.

¹⁰ ONS, 2020, Homeworking in the UK labour market (Jan-Dec 2019)

¹¹ ONS, 2020, Coronavirus and homeworking in the UK: April 2020

¹² ONS, Business Impact of Coronavirus (COVID-19) Survey (27 August 2020)

¹³ BBC News, ‘Coronavirus: Working from home damaging economy, Raab warns’ (6 September 2020)

- 2.13** A recent Savills survey found that 34% of workers would like to continue working from home two days a week¹⁴, while employees value flexibility in their working location. This may result in offices laying vacant for a proportion of the working week. The concept of timeshare for holiday homes is not new, but for offices this may provide a solution to remote working arrangements and reduced office overhead costs. A private office can be shared by two companies on a timeshare basis and is therefore, suitable for companies looking for office access 2-3 days a week. Occupier benefits include reduced office cost for companies which would have paid for a whole office while employees work from home and guaranteed workspace for a set time period.
- 2.14** The office will continue to be a critical driver for culture, in-person collaboration, and learning with a focus on reduced occupational density. It is likely that the workplace may be a hybrid of a variety of locations and experiences that will support convenience, functionality and wellbeing. Savills reported in June 2020 that they expect the balance of these factors will not significantly impact office space demand in terms of floorspace required¹⁵. Ultimately, the consensus among key agents (Savills, Cushman and Wakefield, CBRE) is that occupiers will demand more flexibility as the need for an agile portfolio has increased due to the COVID-19 pandemic.

Implications for industrial space

- 2.15** The COVID-19 lockdown initially had a significant impact on the logistics and manufacturing sectors caused by a disruption of global supply chains due to, in part, by ships being stranded at sea while Chinese ports were closed off, stockpiling of necessity goods, and a slowdown of discretionary spending during the March/ April lockdown¹⁶. Oxford Economics have forecast that Eurozone manufacturing output will reduce by 11% in 2020¹⁷. However, the UK's manufacturing sector is showing signs of recovering with the UK PMI (Purchaser Manufacturing Index) climbing to 60.3 in August, from the record low of 32.6 seen in April. This indicates that manufacturing operations are recommencing in a number of sectors from almost a complete shutdown in April.

The lockdown has accelerated the shift from physical retail to online. Knight Frank indicate that online sales, in comparison to all retailing, was 33.4% in May and 31.8% in June. In contrast, in February online sales accounted for 19.9% of all retail spending¹⁸. Online sales of groceries have risen from 5.4% of all sales in February to 11.3% in May and June. Knight Frank estimate that approximately "25% of first-time online shoppers will also continue using the method beyond the pandemic". The lockdown has had a significant impact on consumer behaviour which has already shown to increase the demand of warehousing space.

¹⁴ Workthere (September 2020) Is there a timeshare opportunity for flexible offices?

¹⁵ Savills News (June 2020) - 89% believe the office is vital, but needs to change

¹⁶ Savills (2020) European manufacturing outlook, Autumn 2020

¹⁷ Savills (2020) European manufacturing outlook, Autumn 2020

¹⁸ Knight Frank (2020) COVID-19 What we know, what to expect, what we question, September 2020

3. Workspace models

This section provides an overview of workspace models that could support start-ups in NWL. We have described a hierarchy of workspace starting with smaller single desk requirements through to space which is exclusive for small but more established businesses and then through to larger premises.

Co-working space

- 3.1** Co-working is defined by SQW as a shared workspace environment which is occupied effectively on a 'hot-desking' basis, typically with a range of potential memberships available ranging from virtual, monthly, or a specified number of days per week or month. Access to facilities and services within the core membership fee varies depending on the operator; typically meeting spaces are available to hire separately. This is typically focused on office workspace as industrial operators usually have specified and unique spatial and facility requirements. This option would be most suitable for a town centre locations where there is likely to be heavy 'traffic' and demand for meeting space for example in Coalville or Ashby.

Serviced/ managed workspace

- 3.2** Individual offices or industrial/workshop space on flexible tenures, although typically short-term licence agreements; lease/licence agreement fee covers facilities, building operational costs, business rates, additional services etc. No specific sectoral or innovation focus (i.e. no business support or specialist space); mix of workspace suite sizes, typically smaller than 1,000 sq ft, often tending to the smaller sizes; communal meeting spaces can be hired. Nationally, there is evidence that demand for 'serviced' office accommodation is increasing, driven by the expansion of the tech sector (and demand within that sector for flexibility), a widespread shortage of modern small sized offices suitable for start-ups and small businesses; and a reluctance on the part of tenants to commit to long term leases given economic uncertainty. This option would probably be best suited to an 'edge of town' location with good road access. Increasingly it has also been seen as a suitable use to revive declining high streets and town centres.

Incubator/ innovation space

- 3.3** This model consists of small sized light industrial units and is centrally managed and marketed. It provides serviced workspace which is equipped with a reception area and services for administrative and secretarial support, meeting rooms, access to in-stalled broadband, easy in-easy out or other flexible renting conditions as well as business support for tenant companies. These properties meet the common understanding of incubator centres as workspace usually offered to business start-ups for the first years of their business activity.
- 3.4** A refinement of the serviced / flexible workspace model, this model comprises a mix of small serviced office/workspace suites, flexibly arranged and let (or licensed) potentially with a focus on innovation; potentially including a quantum of co-working space; potential provision

of facilities to support R&D; shared spaces and amenities to foster collaboration; meeting spaces can be hired; business support services available; suites typically below 1,000 sq ft for offices – potential for a sector-specific focus, contingent upon demand; an emphasis on proactive management which seeks to maximise collaboration opportunities. Typically, innovation centres are in fairly ‘self-contained’ locations, usually on the edge of town with good road access, and generally offer high-spec facilities.

- 3.5** Incubator centres tend to concentrate on facilities, support functions and added value services to meet the needs of start-up businesses. Incubator centres are of particular importance as they aid entrepreneurs in establishing their business through the offer of business advice, networking opportunities, shared services and flexible tenancy arrangements. An occupancy rate of 75% is considered a sustainable level for incubator centres. A lower rate means the centre is not economically viable whilst full occupancy means that the centre cannot have a “churn” of businesses which move in, grow and then move on (usually after 3 years), freeing up space for new entrepreneurs to move in. Very high occupancy rates may also imply that there is a high level of unmet need for further incubator or move on space. Typically, innovation centres are in fairly ‘self-contained’ locations, usually on the edge of town with good road access, and generally offer high-spec facilities.

Business Parks – properties of mainly light industrial workspace

- 3.6** This model includes clusters of buildings with mainly small-scale light industrial workspace. They may include distribution activities and adjacent or separate office space or buildings with an equal share of light industrial and office space. Furthermore, the buildings are within the same location and form a block which causes the impression that they belong together in terms of their use as well as their urban design.
- 3.7** Business centres and business parks are designed for more established and larger businesses. Business centres and parks are not as concerned with churn as incubator centres and so are more likely to be operating at closer to 100% occupancy. Similar to innovation centres, business parks are in fairly ‘self-contained’ locations, usually on the edge of town with good road access, and generally offer high-spec facilities.

Grow-on space – office and industrial

- 3.8** If start-ups or spin-outs (new ventures started by an established organisations as stand alone businesses) are successful they may soon start to look for grow-on space. There is no standard definition of grow-on space, but it is often described as space for small growing businesses with ten or more employees; that is, businesses that have grown to the extent that they are too large to be accommodated in incubator space or enterprise/innovation centres, but are still too small to occupy large, often freestanding, offices or workshop units.
- 3.9** The research into supply of workspace accommodation in the district indicates that NWL has limited supply of grow-on space which is resulting in many larger businesses not moving on from existing tenancies which reduces the supply for start-ups, or moving out of the district to find appropriate space.

3.10 There are a number of reasons that commercial property developers are reluctant to bring forward the development of small-scale workspaces and larger grow on space:

- Relatively high build costs, due to the construction of multiple units, rather than a smaller number of large units, limits the potential rental returns for the developer
- Land values may be too high for a scheme to be viable where there is potential for alternative uses, particularly residential
- Small businesses typically want short-term, easy-in-easy-out leasing arrangements, a half-way house between the total flexibility of incubator space and the long-term leases of the commercial property market. As such tenants may move on more quickly than long leaseholders, the income stream they provide is less certain making financing more difficult, and the developer/owner may face additional transition costs.

3.11 The economic effects of this shortfall can be damaging:

- Without appropriate small workspace and grow-on space, firms hold back on expansion plans, and do not move from their current space, or successful growing businesses risk being lost to the District
- As these firms remain in what has become sub-optimal accommodation, this also prevents other businesses from taking the start-up space, creating a barrier to growth which risks growing businesses moving out of area
- Potential inward investment opportunities can be missed, due to a lack of appropriate space for firms to move into.

4. Economic and business growth

This section focuses on establishing potential demand for new start-up workspace through a review of NWLs economic context, including sector strengths, growth in the business stock and evidence of entrepreneurship.

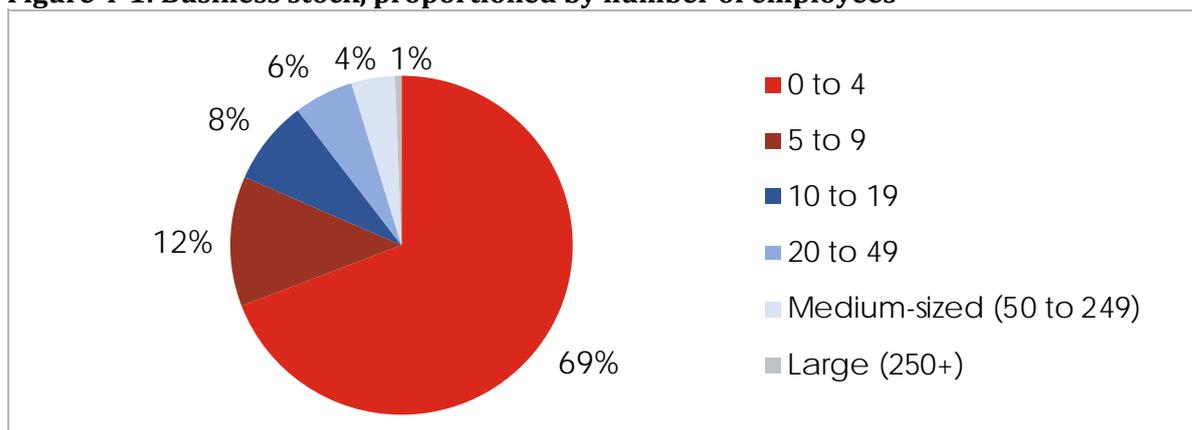
Population growth

- 4.1** The recent population estimate of the district is 103,600, having seen 10.6% growth across all ages from 2011 to 2019.¹⁹ Comparing this figure to 6.6% for East Midlands and 5.5% for UK implies relatively fast expansion.²⁰ Further, towards 2030 the population in NWL is projected to grow faster, rising by 16.7%, versus a 7.2% and 5.0% rise for East Midlands and England. Whilst the projection for the growth of the working-age population in that time period is less sharp, 13.5%, this figure is still much larger than the comparators of 4.2% and 2.5% for East Midlands and England.²¹

Business stock and enterprise

- 4.2** NWL's business stock is slightly less dense with micro-sized business than regional or country comparators. In 2020, of the 4,970 local units²² in the district, 81% employed fewer than ten people, compared with 84% and 85% in the East Midlands and UK respectively. The employment size-band 0-4 covers 69% of Northwest Leicestershire's business stock, compared to 71% and 72% of East Midlands and the UK. In Northwest Leicestershire, some 235 units (0.5% of total stock) employed 50 people or more, and there are very few large employers.²³

Figure 4-1: Business stock, proportioned by number of employees



Source: SQW analysis of UK Business Counts Data, IDBR

- 4.3** The district has a good level of active businesses, with the 2018 figure standing at 756 business per 10,000 working-age population, roughly similar to the UK figure of 739.

¹⁹ ONS data on population estimates, retrieved 2020.

²⁰ ONS data on population estimates, retrieved 2020.

²¹ ONS data on population projections, 2018 projections, retrieved 2020

²² Local units are individual sites that belong to an enterprise (including rented sites).

²³ Data on business stock is taken from UK Business Counts dataset compiled by the Inter Departmental Business Register.

However, whilst that UK figure has risen by 18% since 2013, the total active stock in NWL grew by only 4%. The explanation for this can only be partly attributed to the rapidly growing population – the absolute number of businesses grew at half the rate of the country. Finally, whilst survival rates are competitive, the number of business births has all but flattened off relative to country-level growth. So, there is potentially stagnation in terms of enterprise.

Table 4-1: Business demographics

	North West Leicestershire	% change from 2013	UK	% change from 2013
Birth	495	3%	380580	10%
Death	430	23%	335665	42%
Survival	59.8%	-	55.3%	-
Stock	4535	11%	2939520	20%
Working Age Population	60000	7%	39772400	2%
Active businesses per 100k WAP	756	4%	739	18%

Source: SQW analysis of ONS business demography data and population estimates

Sectoral composition and output

- 4.4 According to the ONS's Business Counts data there are 4,970 business in NWL, the majority of which are micro businesses. The table below gives a breakdown of these businesses according to broad sector, denotes their change over time and density relative to the UK.

Table 4-2: Number of businesses, share of which are micro business, the five-year growth rate and location quotient of each sector

Sector	Number (2020)	Of which micro (<10)	Change to total (since 2015)	LQ (vs UK)
Agriculture, forestry & fishing	200	190 (95%)	-5%	0.95
Mining, quarrying & utilities	40	25 (63%)	0%	1.33
Manufacturing	355	245 (69%)	13%	1.46
Construction	565	515 (91%)	14%	0.95
Motor trades	180	155 (86%)	-3%	1.46
Wholesale	245	170 (69%)	-6%	1.48
Retail	400	320 (80%)	4%	0.87
Transport & storage	345	260 (75%)	10%	1.56
Accommodation & food services	275	195 (71%)	4%	0.87
Information & communication	260	240 (92%)	11%	0.69
Financial & insurance	140	130 (93%)	17%	1.07
Property	180	170 (94%)	38%	0.78
Professional, scientific & technical	705	630 (89%)	2%	0.98

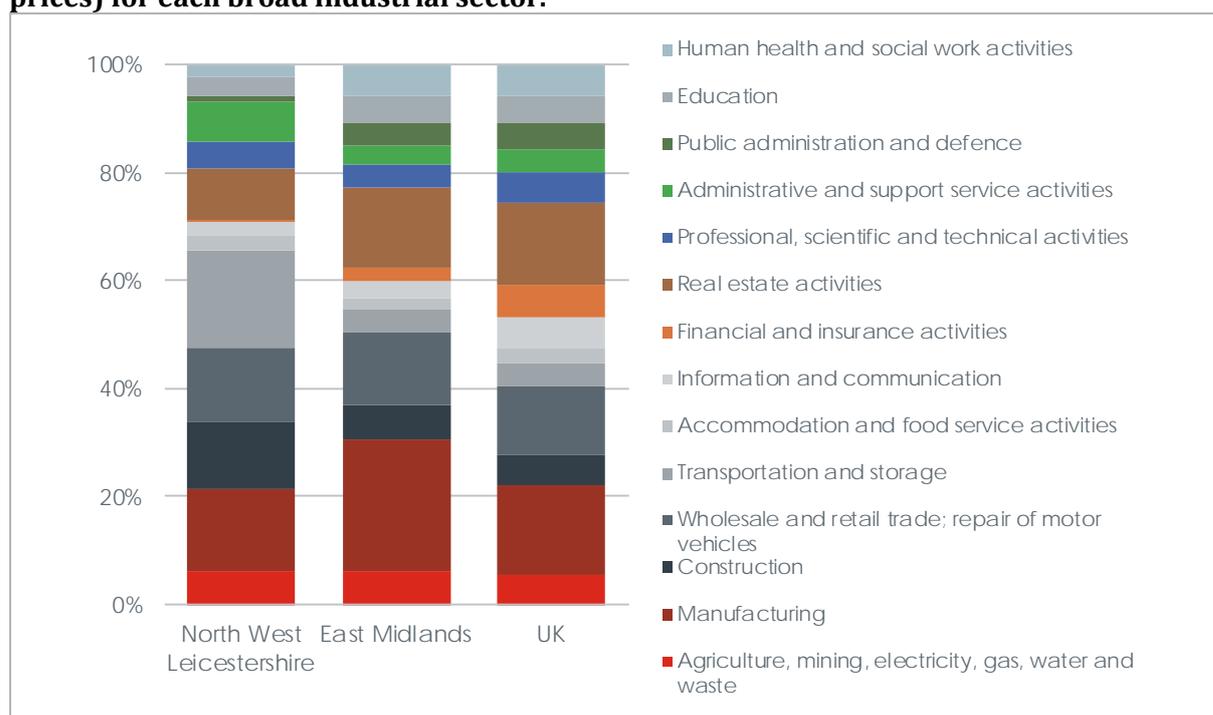
Sector	Number (2020)	Of which micro (<10)	Change to total (since 2015)	LQ (vs UK)
Business administration & services	435	345 (79%)	18%	0.93
Public administration & defence	40	30 (75%)	-11%	1.27
Education	140	75 (54%)	-7%	1.37
Health	170	105 (62%)	-3%	0.75
Arts, entertainment & recreation	295	255 (86%)	7%	0.92
Total	4970	4,055 (82%)	7%	-

Source: SQW analysis of ONS, UK Business Count (local units)

4.5 The location quotients (LQs) in this table are a measure of relative density against the UK. For a given sector, a LQ of 1 implies the proportion of businesses in that sector in NWL is the same as the proportion for that sector in the whole of the UK. So, the Transport & storage, Wholesale, and Manufacturing sectors have relatively more businesses in NWL than they do in the UK. Conversely, Property has a low LQ but is the fastest growing sector in terms of the number of businesses – almost all of these businesses are micro sized (employ fewer than ten people). The Financial & insurance sector is also growing rapidly and is popular with micro businesses. And though the Business administration & support services sector is also growing rapidly, it has a lower LQ and larger proportion of bigger businesses, implying there is competition for the more established firms in the district.

4.6 Akin to the quantity of businesses, the sectoral composition can be explored by looking at the spread of economic output over the sectors. The chart below compares the district to the region and country.

Figure 4-2: Percentage of economy, as a proportion of total GVA (2018, current prices) for each broad industrial sector.



Source: ONS regional accounts

- 4.7** As above, the Transport & storage sector is notably large in relative terms, as is Construction and, to a lesser extent, Administrative & support service activities. Conversely, the Financial & insurance sector holds only a tiny fraction of the district's output share, so whilst the sector may be growing by volume of businesses, the district is not competitive in output terms. It is also worth noting that, for North West Leicestershire, the Financial & insurance sector has shrunk by 39% since 2015 and has fluctuated before then.²⁴
- 4.8** The ONS also produce a limited view on productivity (output per worker) differentiated by characteristics such as firm size.²⁵ This is not broken down by region or location, but the insights are relevant here. At the most general level, there is a positive relationship between firm size and age versus productivity. That is, bigger and older firms tend to be more productive. However, that relationship is driven by sectors such as Manufacturing. Smaller firms are more likely to buck this trend in the Professional, scientific and technical sector, and the relationship is entirely reversed in the Business administration and support services sector. When delivering services, economies of scale are less in effect, and for these activities micro firms and start-ups can provide a significant economic boost.

Labour market and employment

Low employment but rapid growth

- 4.9** At 71.5%, the employment rate in NWL is relatively low, compared to Leicestershire (80.5%), the East Midlands (76.9%), or the UK as a whole (75.6%).²⁶ Aside from having higher unemployment, NWL has a slightly higher rate of self-employment. That said, the number of employee jobs has risen faster over recent years, with the recent value of 63k jobs (in 2018) being a 9% increase over three years, compared to only a 3% increase in Great Britain.²⁷ The largest increases have been in the IT and Property sectors, seeing 40% and 56% boosts to the number of employees in that time frame. However, the proportion of employees in those sectors is still less than that of Great Britain, implying that the region is catching up more than pulling ahead.
- 4.10** BRES data also indicate that employment density is greater in the sectors of Transport, and Mining, quarrying & utilities, with employee location quotients of 2.9 and 3.3. In 2018, the Transport sector made up 14% of total employment according to BRES, largely due to the presence of East Midlands Airport. The next largest of the broad sectors are Manufacturing, and Business administration & support services. Conversely, the Financial and the Public administration & defence sectors are least well-represented, both seeing just 1.1% of employees working in that sector (compared to 3-4% across the country).

²⁴ For context, the total UK GVA for Finance and insurance recovered steadily from the 2008 financial crisis, the sector in the East Midlands is neither growing nor shrinking, but is nearly 13% smaller than in 2009.

²⁵ See Figure 6 in <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/articles/firmlevellabourproductivitymeasuresfromtheannualbusinesssurveygreatbritain/1998to2018#firm-level-productivity-by-firm-characteristics>

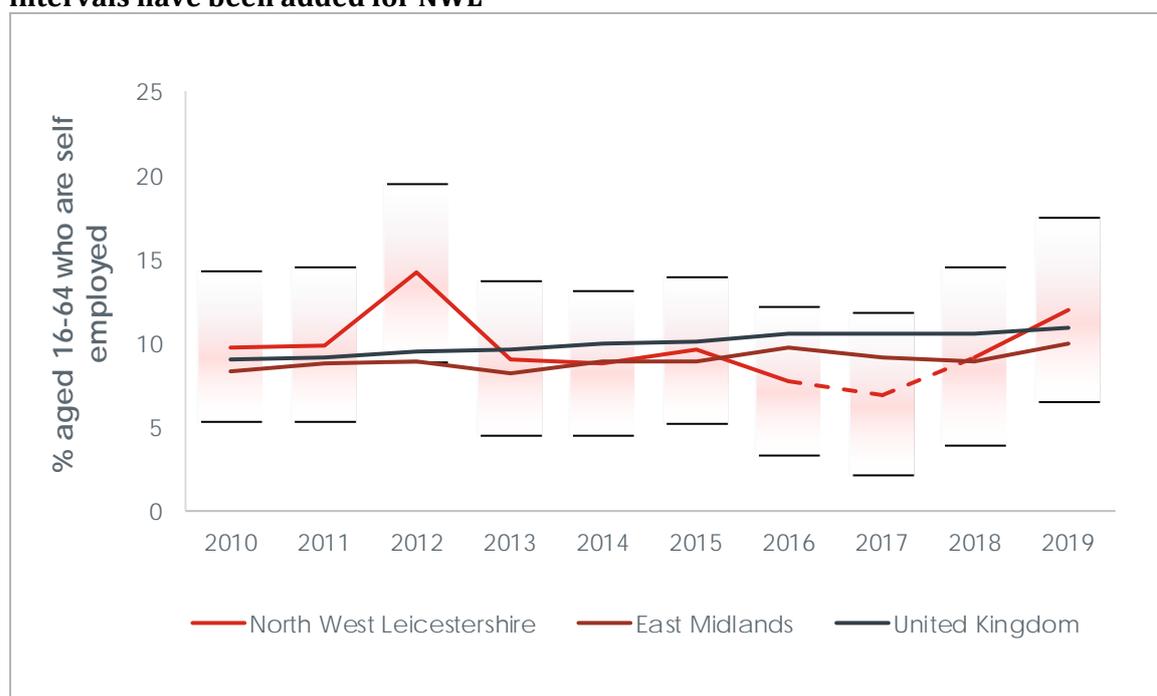
²⁶ ONS, Annual Population Survey 2019. Note, here and elsewhere, the confidence interval for APS data is wide for the North West Leicestershire district, so these statistics should be treated with caution.

²⁷ SQW analysis of BRES; analysis over a longer time period is not valid due to discontinuities in the way BRES data is recorded.

Self-employment

4.11 As stated above, the most recent figure for self-employment in NWL is slightly higher than the region or the country. The following figure charts this over time. Whilst the data indicates a picture of mixed growth for NWL, the ups and downs are likely driven by the small sample size from which the data is produced (in this analysis, East Midlands and the UK have large and reliable sample sizes). For NWL, the confidence intervals denoted on the chart give the range in which the true value likely occurs. Feasibly this could be above or below the comparators. A greater sample size in the Annual Population Survey would give more reliable figures.

Figure 4-3: Rates of self-employment in NWL and comparators. 95% confidence intervals have been added for NWL



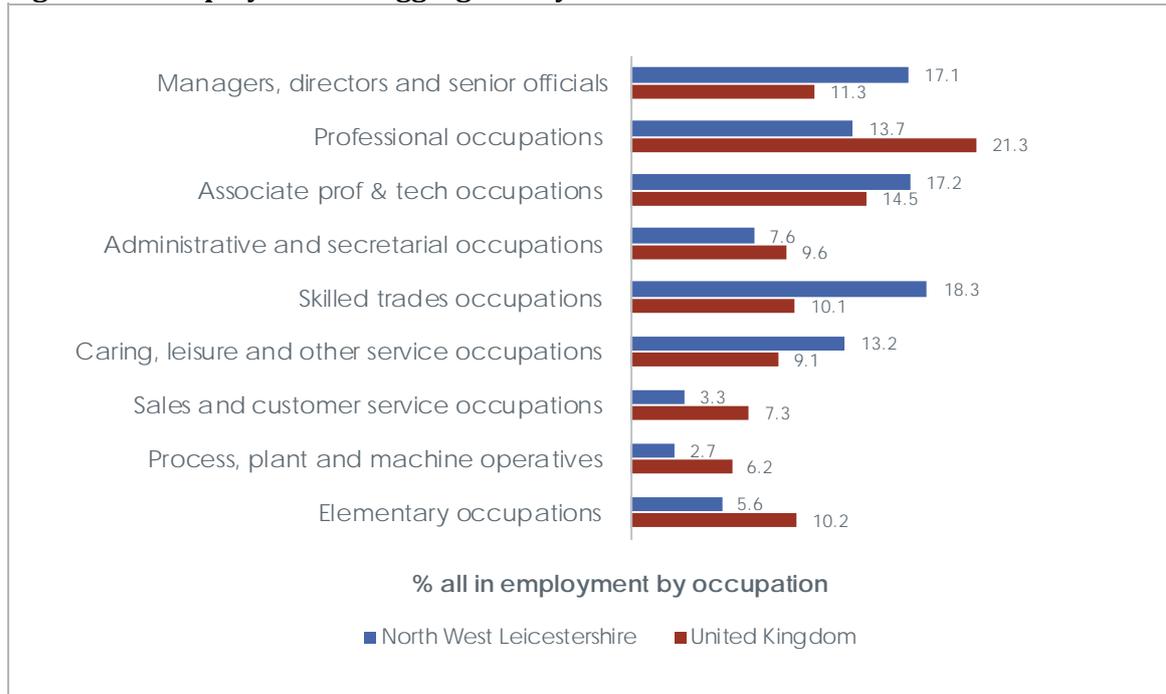
Source: SQW analysis of APS 2019. 95% confidence intervals have been added for NWL; the dotted section, in 2017, is based on very small sample size and the estimate is given a warning for its reliability.

A skills gap

4.12 Possibly relating to the higher level of self-employment, the rate of employment in the managerial tier of occupations is higher in NWL than in the East Midlands or the UK. The same is true for the proportion in employment in skilled trade occupations. However, the lower rate of professionals implies that there may be a skills gap with the rest of the country.²⁸

²⁸ As above for the caveat on the APS, the data for North West Leicester is grossed up to the population from a small sample, so statistical significance at the district level is much lower than for the country. The specific comparisons stated here are reliable as they are made with respect to confidence intervals, however, the other sectors have greater confidence intervals.

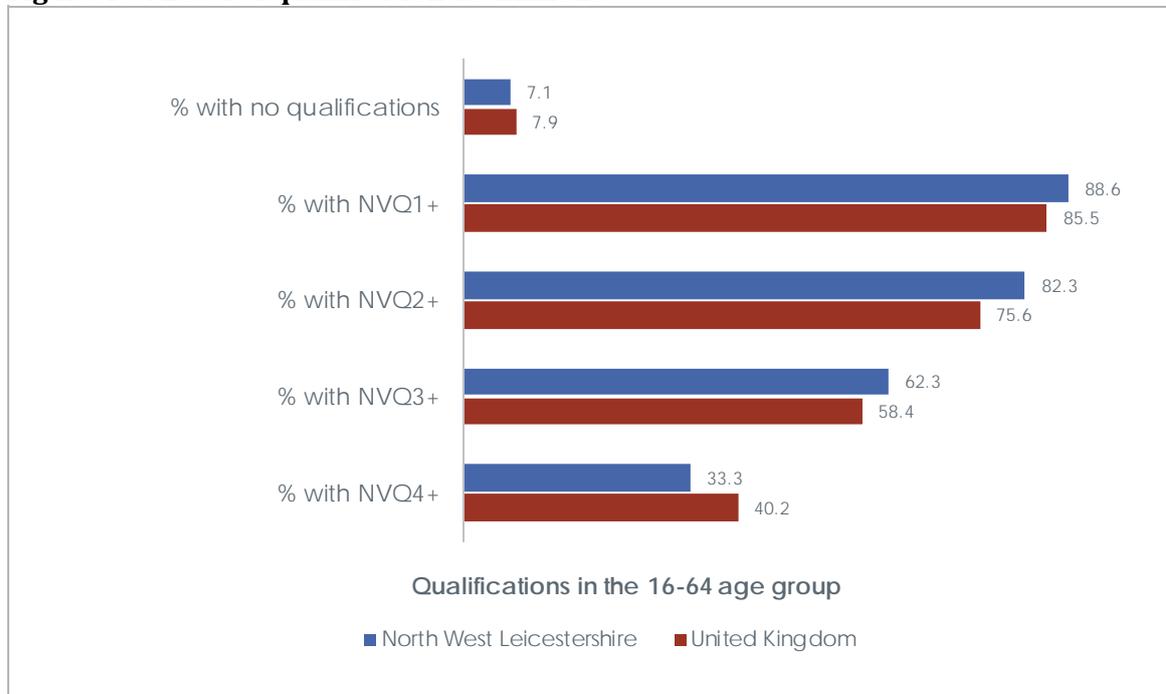
Figure 4-4: Employment disaggregated by broad sectors in the SOC 2010



Source: SQW analysis of APS 2019

4.13 The skills gap can be observed by examining the difference in qualifications levels. The working-age population in the NWL district are competitive with the rest of the country up to the level of NVQ3, but there is a gap at NVQ4+ (undergraduate degree). That said, attainment at NVQ4+ does fluctuate, and for 3 of the past 10 years it has been higher in NWL.

Figure 4-5: Level of qualification attainment

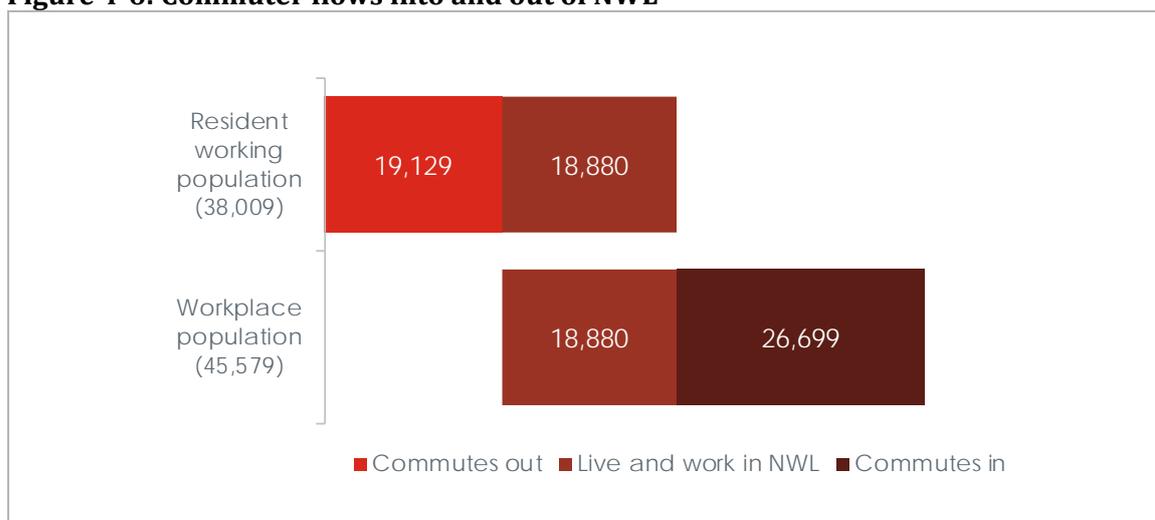


Source: SQW analysis of APS 2019

Commuting flows

4.14 Though the data is soon due for a refresh, the 2011 Census still provides some of the most accurate information around commuting patterns. The 2011 Census has an indicator for distance travelled to work: 9.3% of respondents in NWL said they worked from home with a further 13.1% saying they worked less than 2km away. The other indicator discussed here considers workplace and residential locations the week before the census. The overall pattern is an inflow of around 7.5k workers, with most of those commuting in from South Derbyshire and Charnwood. More commuters leave to go to Charnwood, so there is a net outflow to that area.

Figure 4-6: Commuter flows into and out of NWL



Source: SQW analysis of Census (2011) WU03UK - Location of usual residence and place of work by method of travel to work

4.15 The Census data can be supplemented with more recent data on Jobs Density.²⁹ In 2018, NWL had the highest jobs density of any district in the East Midlands, with 1.09 jobs for every resident of working age. The UK jobs density is 0.86, and nearby districts are even lower, with Charnwood standing at 0.63, Hinckley and Bosworth 0.7, and South Derbyshire 0.57. NWL having more jobs than its working age population implies that there is a significant net inflow of workers, and this ties in with the lower densities nearby, presumably where those workers commute from into NWL.

Earnings

4.16 Analysis of the ONS's Annual Survey of Hours and Earnings reveals more about the labour market. Though the district has a net inflow of workers, the workplace population earns less, on average, than the resident population. At £597, the median resident weekly wage in NWL is higher than both the East Midlands and the UK (£547 and £585). The workplace comparator is 10% less, £543; yet this is still higher than that for the region, £535. Together, the implication is that for those working in the East Midlands, North West Leicestershire tends to provide a better pay. Beyond that, it is possible that either the commuters who live in the district are travelling out for better remuneration, bringing the resident average up – or that the net inflow of commuters find lower pay to bring the workplace average down.

²⁹ This dataset combines BRES and the APS as well as information from DfES, DWP the MoD.

Summary

4.17 Key points to be highlighted from the review of NWL's business stock and labour market:

- Any additional provision of business workspace would be developed in the context of an area which is growing relatively quickly, both in terms of its population and the number of jobs – and though the number of businesses is growing, it has done so at a slightly slower rate than the country as a whole. The frequency businesses births/deaths is slower in the district and it is quite feasible that this will cause tension if the growth of the working-age population is not matched by a growth in employment opportunities.
- There is evidence of propensity for entrepreneurship, which may be growing in response to employment uncertainty resultant of COVID-19. The local business base is overwhelmingly micro-dominated with nearly 82% of businesses employing fewer than ten people. The district over-indexes on managerial occupations, self-employment is high, and over a fifth of workers work from home or less than 2km away.
- The population in the district faces an apparent skills gap, with lower rates of NVQ4+ attainment and far fewer people working in professional roles. Yet despite this, the district's wages are competitive with the region's but there is likely a large contingent of higher skilled workers commuting out for better pay who may be able to take advantage of workspace closer to home.
- Given the district's proximity to neighbouring centres (Derby, Leicester City, Charnwood) and its net inflow of workers, the transport infrastructure is clearly in place such that an additional workspace offer could draw on workers from across a large area.

5. Commercial property review

- 5.1** This section assesses potential demand for start-up workspace by analysing property market indicators. It then considers the pipeline supply in the District and considers the views of agents on the local property market.

Office market

Take up (demand)

- 5.2** In this section we analyse the take up³⁰, as an indicator of past demand, of small office accommodation in NWL over the last five years, using the CoStar and EGi databases.
- 5.3** In terms of the number of transactions, between 2015 and 2020, a total of 17 small offices (≤550 sq ft) were transacted, representing 26% of the total number of office transactions during the period. As shown in Table 5-1 the number of transactions for small offices peaked in 2015 with six agreed lets contributing to 43% of the total number of transactions in the year. There was limited transaction activity for small offices in 2016, 2018 and 2019. However, in 2020, 40% of all five office transactions were for small offices, representing an increase from previous years (as shown in Table 5-1).
- 5.4** In terms of the amount of space transacted, between 2015 and 2020, 4% of the total office floorspace let was for small offices suggesting that there have been relatively low levels of take up for small offices typically used by start-up businesses in the last five years. This can be an indicator of low demand *or* constrained supply.
- 5.5** In 2015, 2,348 sq ft of small office space was let which represents 17% of the total take-up in 2015. As shown in Table 5-1 between 2016 and 2019, take-up of small office space was much lower, ranging between 0% in 2018 to 7% in 2019. However, in 2020 to date, small office workspace transactions accounted for 26% of total take up, the second highest quantum of space transacted between 2015 and 2020. The average annual take-up for small offices is 1,260 per sq ft, which is 4% of NWL's total average annual take-up of 30,541 sq ft.

Table 5-1: Letting transactions, small office and all office, 2015-2020

Year	Number of transactions			Space (sq ft) transacted		
	Small office (≤550 sq ft)	All office	Small office % of total take up	Small office (≤550 sq ft)	All office	Small office % of total take up
2015	6	14	43%	2348	14,097	17%
2016	2	10	20%	880	23,943	4%
2017	4	11	36%	982	50,467	2%

³⁰ Take-up indicates the level of business securing new occupation of new or second-hand accommodation

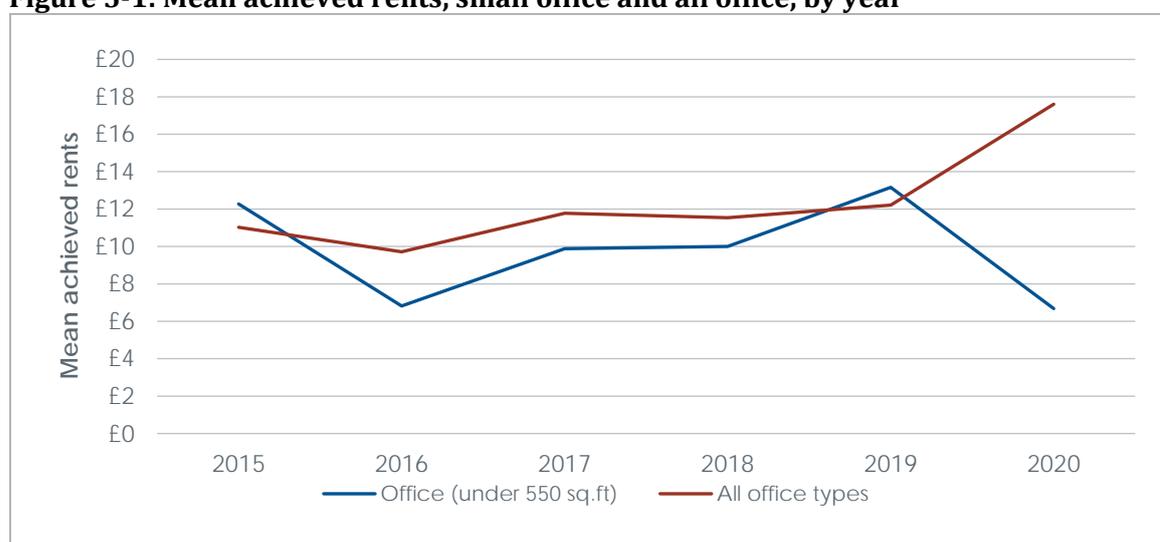
Year	Number of transactions			Space (sq ft) transacted		
	Small office (≤550 sq ft)	All office	Small office % of total take up	Small office (≤550 sq ft)	All office	Small office % of total take up
2018	1	17	6%	180	48,325	0.4%
2019	2	8	25%	836	11,800	7%
2020	2	5	40%	1078	4,073	26%
Total	17	65	26%	6,304	152,705	4%

Source: SQW analysis of CoStar and EGi databases

Rental values

- 5.6 Figure 5-1 shows the achieved mean rents for small offices and all offices across NWL from 2015 to 2020. In 2015, small office space achieved mean rents of £12.40/sq ft, 11% greater than mean rents for all office transactions. However, this difference in rental values was not consistent over the study period. The small number of transactions, particularly in 2016, 2018, 2019 and 2020 make it difficult to assess the real trend of start-up workspace rents. Due to average rental values in 2016, 2019 and 2020 comprise of 2 transactions, the decrease in average rents in 2020 is likely to be building specific rather than a market-led trend.

Figure 5-1: Mean achieved rents, small office and all office, by year



Source: SQW analysis of CoStar and EGi databases

- 5.7 Table 5-2 shows the range of rental values from 2015 to 2020. While small offices rents are consistently lower than all office space leased out across the lower quartile, mean and upper quartile, the difference in rents is small ranging from £1.10/sq ft to £1.98/sq ft.

Table 5-2: Range of rents (£/sq ft), small office and all office, 2015-2020

Type	Sample size	Lower quartile	Mean	Upper quartile
Office (under 550 sq.ft)	17	£8.00	£10.38	£12.00
All office types	65	£9.10	£11.85	£13.98

Source: SQW analysis of CoStar and EGi databases

Quality of stock

5.8 CoStar define the quality of supply using a Five Star rating system which is based on a combination of building characteristics and the value of the building relative to market averages. The general descriptions for offices are defined in Table 5-3 below.

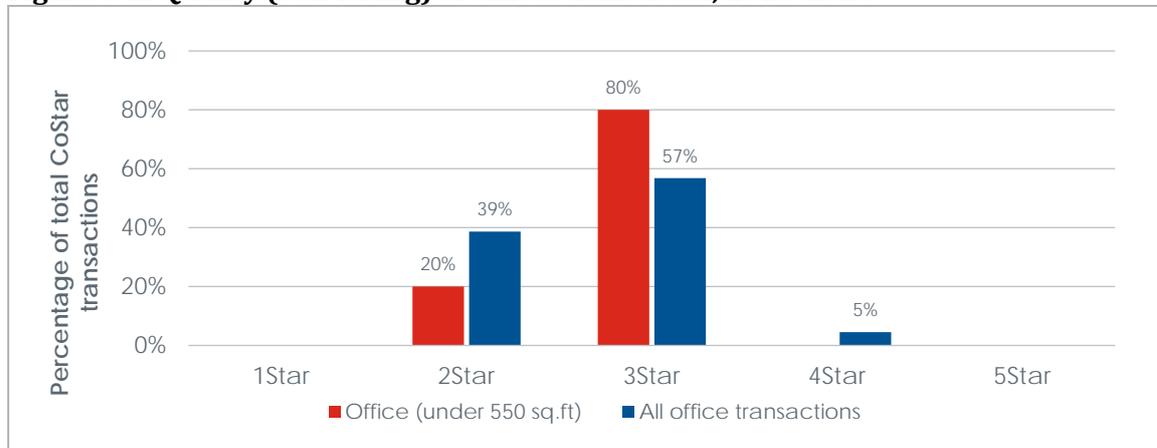
Table 5-3: CoStar Star Rating definition for office

Star rating	Explanation of quality
 and 	<ul style="list-style-type: none"> • New or refurbished construction exhibiting the latest trends in office design. • Prominent in its context. • Sustainable and energy efficient. • High-quality materials and systems. • Efficient floor plates and generous ceiling heights. • High glazing ratios for daylight and views. • Rents above the market average.
	<ul style="list-style-type: none"> • An older structure, but not refurbished. • Standard ceiling heights with less efficient floor plates. • Average or near average market rents.
 and 	<ul style="list-style-type: none"> • In need of significant refurbishment or only suitable for smaller tenants. • Lowest rents in the market.

Source: CoStar 2020

5.9 As shown in Figure 5-2, the majority of small office workspace let from 2015 to 2020 are 3 Star premises. This includes the new build offices at Ivanhoe Business Park complete in 2020. The remaining 20% of small office space transacted are 2 Star. No four or five start-up offices have come onto the market suggesting that the quality of start-up stock is relatively average or poor. However, this can also be said for NWL’s office market. Four-star offices include Ivanhoe Office Park (built-in 2014) and Ceva House (built-in 2005) at Ashby Business Park in Ashby De La Zouch. Both units have achieved rental values of between £13.00/sq ft and £13.55/sq ft.

Figure 5-2: Quality (star rating) of offices transacted, 2015-2020

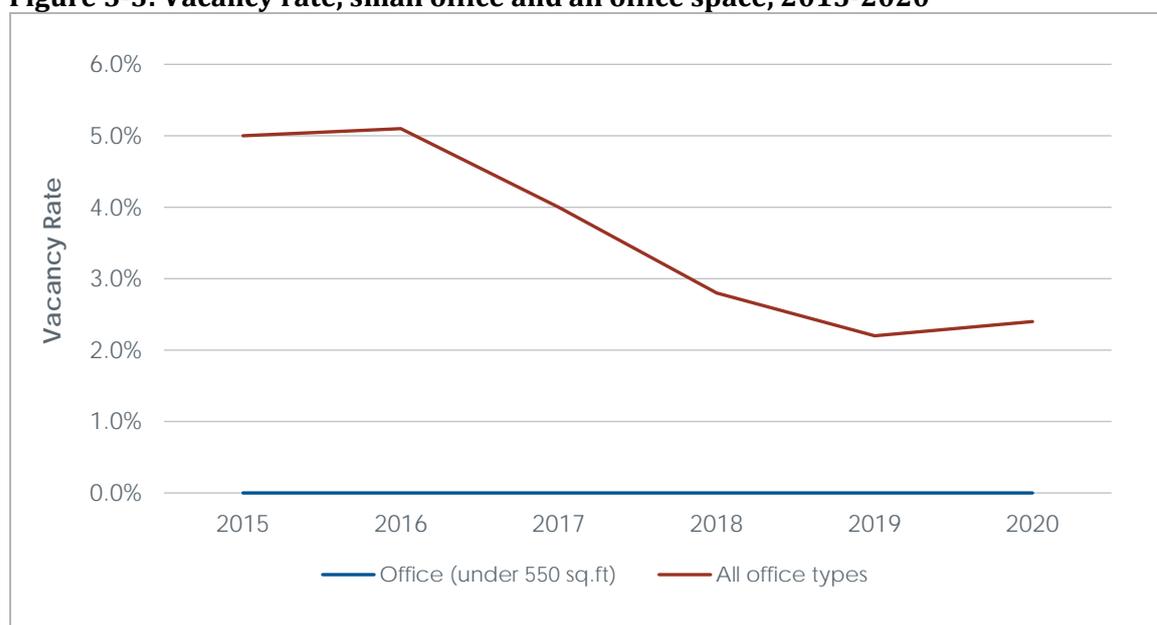


Source: SQW analysis of CoStar quality data

Vacancy and availability³¹ (supply)

- 5.10** As of October 2020, CoStar identified no vacancies for small offices across NWL. Vacancy rates have remained at an average of c.0% consistently from 2015 to 2020. This suggests that the conventional office market is significantly constrained with limited available stock coming on to the market. However, NWL’s website notes a vacant c.500 sq.ft unit at Tanyard House in Measham and Whitwick Business Centre, a serviced office in Coalville currently has four units available ranging from 327 sq. ft to 1012 sq. ft showing that there is a small quantum of available serviced office space.
- 5.11** Overall, NWL’s total office inventory’s vacancy rate has reduced from 5% in 2015 to 2.4% in 2020. In 2020, a vacancy rate of 2.4% equates to c.38,900 sq ft of vacant office space.

Figure 5-3: Vacancy rate, small office and all office space, 2015-2020



Source: SQW analysis of CoStar database

- 5.12** In 2020, availability rates in NWL are slightly higher at 6.4% which equates to c.101,000 sq ft of available office space. This shows that whilst NWL has over 101,000 sq ft of available office space, there is no vacant or available small workspace recorded in the CoStar database. While availability data is a snapshot in time and may change as more space becomes available to let, the limited quantum of small office supply currently available will not sustain previous year’s level of take-up and will constrain the small office workspace market further.

³¹ **Availability rate** is the amount of space “available” for lease, sublease or sale in a market, divided by the total inventory of space (unoccupied). **Vacancy rate** is the amount of space “vacant” for lease, sublease or sale in a market, divided by the total inventory of space (occupied and unoccupied). Available space is what deals can be made on (with or without occupiers); vacant space is having no occupiers and is captured within the availability rate.

Light industrial market

Take up (demand)

- 5.13** In this section we analyse the take up, as an indicator of past demand, of small light industrial accommodation in NWL over the last five years, using the CoStar and EGi databases.
- 5.14** In terms of the number of transactions, between 2015 to 2020, a total of 28 small industrial units ($\leq 1,010$ sq ft) were transacted, representing 20% of the total number of transactions over that period. As shown in Table 5-4, the number of transactions for small light industrial space peaked in 2018 with 13 agreed lets contributing to 41% of the total number of transactions in that year. There has been limited transaction activity in 2019 and 2020 suggesting that small light industrial market activity has been relatively subdued from 2019 onwards.
- 5.15** In terms of the amount of space transacted, between 2015 and 2020, 4.9m sq ft of industrial units have been secured in NWL, of which 19,845 sq ft is small light industrial accommodation. Small light industrial accommodation take up equates to 0.4% of total take up.
- 5.16** Take up data, suggests that from 2015 to 2018, the quantum of small light industrial accommodation transacted increased year-on-year to a peak in 2018 with 10,400 sq ft of space transacted. However, the take-up of small light industrial accommodation in 2018 equated to 0.7% of total space transacted, indicating that larger industrial units contribute to a larger share of the market. From 2019 onwards, there has been limited take-up of small light industrial accommodation compared with previous years.

Table 5-4: Letting transactions, small light industrial and all light industrial, 2015-2020

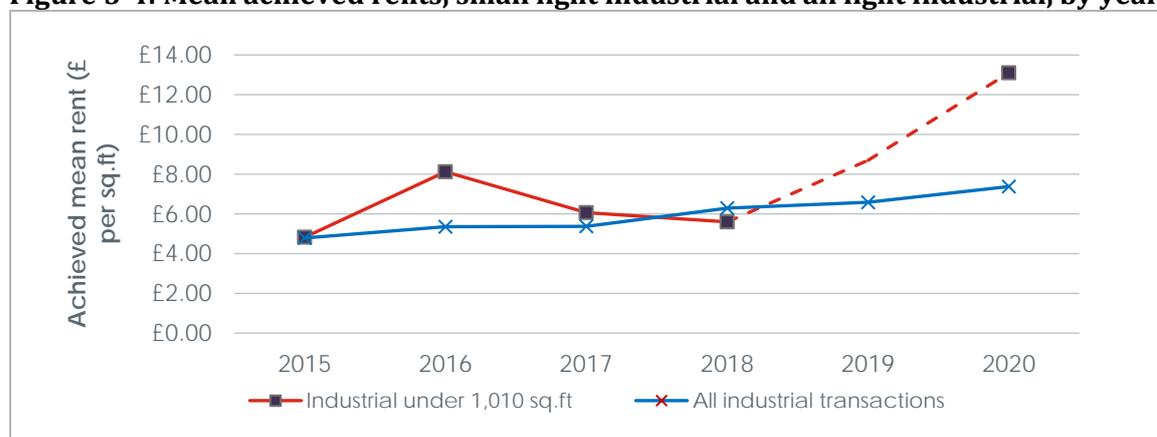
Year	Number of transactions			Space (sq ft) transacted		
	Small industrial ($\leq 1,010$ sq ft)	All industrial	Small industrial % of total take up	Small industrial ($\leq 1,010$ sq ft)	All industrial	Small industrial % of total take up
2015	3	33	9%	1,700	402,252	0.4%
2016	4	22	18%	3,370	503,938	0.7%
2017	7	36	19%	4,199	1,229,915	0.3%
2018	13	32	41%	10,402	1,570,230	0.7%
2019	0	10	0%	-	65,188	0.0%
2020	1	6	17%	174	1,139,578	0.0%
Total	28	139	20%	19,845	4,911,101	0.4%

Source: SQW analysis of CoStar and EGi databases

Rental values

- 5.17** Table 5-4 shows the achieved mean rents for small light industrial and all light industrial transactions in NWL between 2015 and 2020. In 2015, small light industrial accommodation achieved mean rents of £4.83/sq ft, 1% greater than the mean rent of all light industrial transactions in 2015. From 2015 to 2020, all industrial transactions show a year-on-year increase in achieved mean rent, suggesting that good demand is influencing rental values.
- 5.18** However, small light industrial accommodation has not experienced the same year-on-year rental value growth. Mean achieved rents had fluctuated from £4.83/sq ft in 2015 to £5.60/sq ft in 2018. To date in 2020, the one agreed small light industrial let achieved £13.10/sq ft for 174 sq ft of space. This was an industrial warehouse located in Elms Farm Industrial Estate in Measham. Other asking prices for other units in the same industrial estate are c.£4.50 suggesting that this transaction may have been the result of a bid competition or other special circumstances.

Figure 5-4: Mean achieved rents, small light industrial and all light industrial, by year



Source: The dashed line represents no rental data in 2019. Source: SQW analysis of CoStar and EGi databases

- 5.19** Table 5-5 shows the range of rental values from 2015 to 2020 divided into a lower (25%) quartile, mean and upper (75%) quartile. Small light industrial units are consistently slightly more expensive across the lower quartile, mean and upper quartile rental values compared to all industrial transactions listed. While from 2015 to 2020, small light industrial unit rents do not show an upward trend year-on-year (which may be due to a relatively low number of transactions in each year), small light industrial rents, on the whole, tend to be higher than the average. Higher than average rents may be influenced by greater demand or constrained supply for small industrial start-up workspace. Consultation evidence suggests both is the case, with high demand and low supply in recent years of small industrial space.

Table 5-5: Range of rents (£/sq ft), small light industrial and all light industrial, 2015-2020

Range of rental values	Sample Size	Lower quartile	Mean	Upper quartile
Industrial under 1,010 sq.ft	28	£5.37	£6.13	£6.67
All industrial transactions	139	£4.67	£5.59	£6.00

Source: SQW analysis of EGi and CoStar databases

Quality of stock

5.20 The five-star rating system for industrial use are defined in Table 5-6 below.

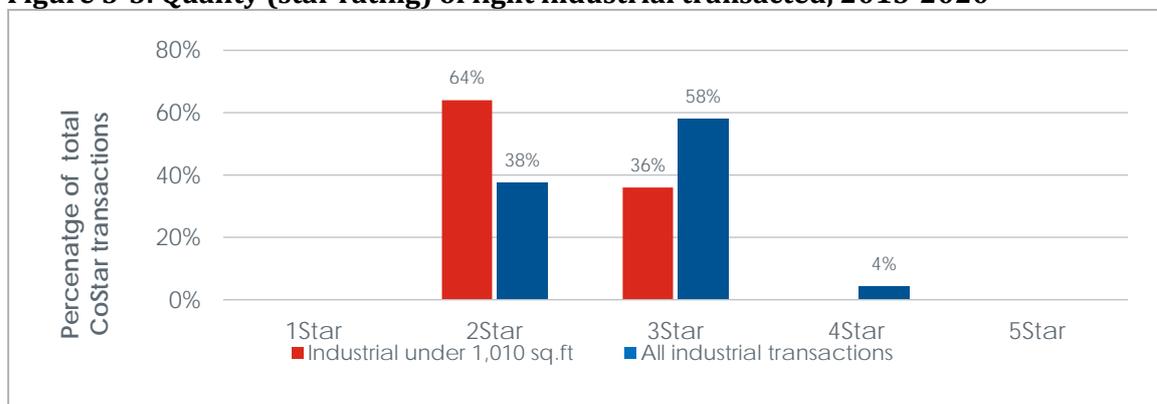
Table 5-6: CoStar Star Rating definition for industrial

Star rating	Explanation of quality
 and 	<ul style="list-style-type: none"> • Efficient loading ratios. • High eaves heights. • Land available for manoeuvrability, access and expansion. • Likely new, large, modern distribution and warehouse facilities. • Adequate roof lights. • Flexibility to accommodate various tenants and uses. • Rents above market averages within its secondary type.
	<ul style="list-style-type: none"> • Smaller structures with lower eaves heights. • Limited land for expansion and access. • Average or near average market rents.
 and 	<ul style="list-style-type: none"> • Suitable for smaller, unique industrial uses. • Limited functionality. • Lowest rents in the market.

Source: CoStar 2020

5.21 As shown in Figure 5-4, the majority (64%) of small light industrial accommodation let from 2015 to 2020 are 2 Star premises. The remaining 36% of start-up space transacted are 3 Star. This suggests that the quality of small light industrial stock is relatively low. Overall, the quality of industrial units across NWL is 3 Star premises at a 58% share of total transactions, followed by 2 Star at 38% and 4% of the total transactions were 4 Star units. However, no 4 or 5 Star small light industrial units have come onto the market. There are several large 4 star industrial distribution warehouses including, Mount Park Bardon, Interlink Park, and Ivanhoe Industrial Park in Ashby De La Zouch. These types of premises are achieving high rental values ranging from £6/ sq ft to £14/ sq ft. However, there is no high quality small light industrial stock within NWL, and recent developments accommodate the larger distribution and warehouse market only.

Figure 5-5: Quality (star rating) of light industrial transacted, 2015-2020

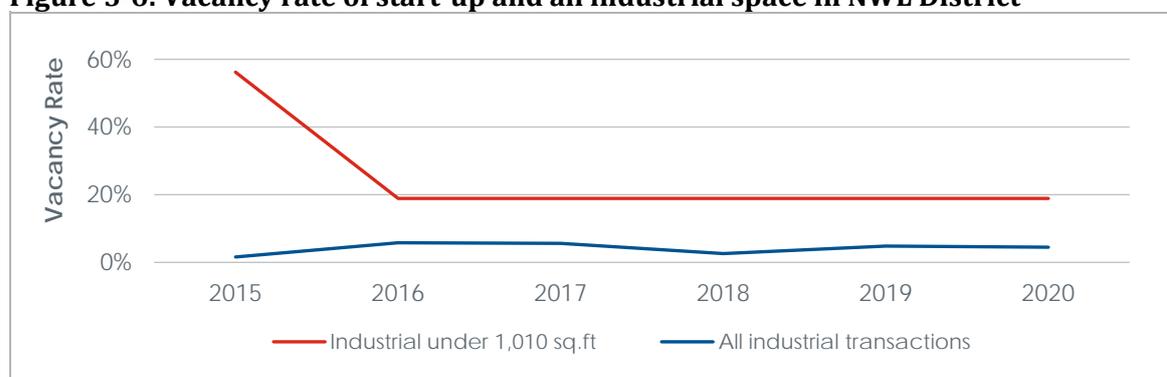


Source: SQW analysis of CoStar Database

Vacancy and availability (supply)

- 5.22** As of October 2020, CoStar data indicates that NWL's total industrial accommodation (under 1000 sq.ft) vacancy rate has remained relatively low compared to NWL's small industrial accommodation. However, overall, the low quantum of small industrial space may skew vacancy rates up as a small quantum of vacant space can have a large impact on the proportion of vacant space due to the small overall sample size.
- 5.23** As shown in Figure 5-6, of NWL's total industrial inventory of 23m sq ft, vacancy rates have consistently remained under 6% from 2015 to 2020. In 2015, vacancy rates were at an all-time low at 1.6% which equated to 250,833 sq ft of industrial space. From 2015 to 2020, approximately 7.5m sq ft of space has been developed. From 2015 to 2016, an additional 2 million sq ft of space came onto the market, which perhaps led to a greater vacancy rate of 5.8%, which reduced to 2.8% in 2018. The further addition of 3.5million of space on to the market increased vacancy rates to 4.8% in 2019. Despite the large quantum of space delivered from 2015 to 2020, the relatively low vacancy rates suggest that strong levels of demand underpins NWL's industrial market. As shown in Figure 5-6, small industrial space on the other hand, has not experienced the same increase in stock and remained relatively unchanged over the same period. As a result, the vacancy rate for small industrial units has remained at 19% from 2016 onwards.
- 5.24** In 2020, availability rates (for all industrial stock) are at 4.6%, which equates to c.1.2m sq ft of available industrial units' space. However, this does not translate to small light industrial accommodation, there is approximately 784 sq ft available in 2020. In this case, NWL's small industrial stock's vacancy rate (proportion of units that are unoccupied and available to lease out) and availability rate (proportion of units that are available to lease out but are currently occupied) are the same. This shows that all available space is vacant and has been since 2016. However, it is possible that CoStar data may not be all-encompassing, however, EGi database also showed no available industrial units within our search criteria illustrating the limited options for businesses looking for small industrial units. The quantum of small industrial accommodation available is significantly lower than the average annual take-up of 3,308 sq. ft suggesting that there is not enough small industrial supply currently available to meet previous years' level of take up.

Figure 5-6: Vacancy rate of start-up and all industrial space in NWL District



Source: SQW analysis of CoStar Database

Summary

5.25 Key points to be highlighted from the review of NWL's office property market review:

- Take up, as an indicator of past demand, for small office space has been low in the past five years. The average annual take-up for small offices is 1,260 sq ft (117 sq m), which is 4% of NWL's total average annual take-up of 30,541 sq ft (2,835 sq m). The low level of demand is also indicated in rental values for small offices, which are consistently lower when compared to all office transactions in the past five years.
- Small office vacancy rates have remained approximately 0% from 2015 to 2020, showing that the market has been significantly constrained by lack of stock coming on to the market. The lack of small office stock has constrained the market and as a result market demand has not been fully tested from property market data. This may help explain the small quantum of take-up and varying rental values.

5.26 Key points to be highlighted from the review of NWL's light industrial property market review:

- Compared to above, small light industrial workspace take-up has been more active in terms of the quantum of transactions and absolute square footage transacted between 2015 and 2020.
- Between 2015 and 2020, all light industrial transactions show a year-on-year increase in achieved mean rent, suggesting that good demand is influencing rental values. However, small workspace rental values did not exhibit the same upward trend, which may be due to the lower quantum of transactions.
- When looking at the overall achieved rents (irrespective of when the transaction happened), the lower quartile, the mean and upper quartile of achieved small light industrial workspace rents are higher than all industrial transactions. Higher than average rents in small light industrial workspace suggests that demand for smaller start-up workspace exists.
- Small light industrial workspace agreed lets are mostly (64%) 2 Star premises. The remaining 36% of start-up space transacted are 3 Star suggesting that quality of small light industrial stock is relatively low.

Current supply

Apollo Court Business Park

5.27 Apollo Court Business Park, located at Vulcan Way Hermitage Industrial Estate, was developed by Leicestershire County Council to boost business in Coalville by supporting start-ups and firms looking to expand. The planning consent (17/01849/COM) was granted for Class B1(b), B1(c), B2 and B8 uses. The scheme includes 17 industrial units ranging from 95 sq m to 429 sq m, with five of the units providing accommodation at or less than 100 sq m. The units are shell units without fit out, toilet areas and kitchen facilities.

Figure 5-7: Aerial photograph of Apollo Court Business Park



Source: BSP Consulting

5.28 The take up of the smaller units at Apollo Court Business Park provides an indication of current demand. The letting agents for Apollo Court Business Park, Berry's, advise that at the date of this report there are two of the five 100 sq m units still available. However, there is an expectation that these will be let by the end of November. Three of the largest units are still available although discussions with two occupiers is ongoing. The interest dipped during the first COVID lockdown however, once practical completion was achieved in late September the units have been steadily occupied and filled.

5.29 Three themes emerged from the feedback received from the letting agent of Apollo Court:

- Start-up businesses were expecting more facilities (fitout, toilets and kitchen) to be included for the price of the rent. This indicates that although there is demand for small industrial accommodation, the facilities provided do not align with the current market expectations from start-up businesses in terms of what they get for the cost of rent.
- The 1,000 sq ft accommodation is considered to be too small for businesses looking to expand from smaller premises, however, the larger units are too large. This indicates there is some demand for grow-on space.
- Apollo Court is not appropriate for more dirty operations and as such there is a need to provide suitable locations for these elsewhere.

Future pipeline

5.30 There is evidence of some commercial proposals coming forward to provide additional small business space. Table 5-7 provides the details of two proposals with extant planning

permission that will accommodate a total of ten additional small industrial units ranging from 29.4 sq m to 89.4 sq m.

Table 5-7: Extant planning permissions for employment uses

Address	Application details	Scheme details
Lower Rectory Farm, Snarestone Road Appleby Magna Swadlincote	18/01131/FUL Approval granted 2 September 2019	Extension to existing building to accommodate five new industrial units: <ul style="list-style-type: none"> • Unit 1: 29.4 sq m • Unit 2: 30 sq m • Unit 3: 30 sq m • Unit 4: 39.4 sq m • Unit 5: 60 sq m
Site Of Former Sawley Crossroads Service Station London Road Cavendish Bridge Leicestershire	18/01115/FUL Approval granted 31 January 2019	Five new light industrial units: <ul style="list-style-type: none"> • Unit 1: 89.9 sq m • Unit 2: 89.9 sq m • Unit 3: 89.9 sq m • Unit 4: 89.9 sq m • Unit 5: 89.4 sq m

Source: NWLDC Planning Portal, accessed 21 October 2020

Consultee perspectives on supply and demand

5.31 As part of this study, SQW consulted with representatives from NWLDC, LCC and LLEP, workspace centre managers and commercial property agents to establish their perspective on the market for small office and light industrial workspace. Refer to Annex A for the full list of consultees.

5.32 The following lists key broad findings of the consultations, with specific findings on the demand for small industrial and office workspace following thereafter.

- Consultees acknowledged that NWL has an established logistics and distribution business base, however these businesses are typically larger with requirements for large scale accommodation. These types of developments are more profitable for developers and as such there has not being many smaller employment schemes brought forward in recent years.
- Engineering related businesses are prevalent in the district, however in recent years there has been some decline in the sector. However, many of the enquiries local agents have been receiving are from engineering related firms (some of which are start-ups), including a high proportion of vehicle servicing and repair related activities.
- The district has the opportunity to promote businesses related to the green economy, technology and research and development. These sectors are perceived as a key driver in COVID-19 recovery and the future economic growth of the district.

- 5.33** The Business Focus team at NWLDC collect data from the enquiries they receive from start-ups and larger businesses looking for new accommodation. The table below provides the number of enquiries from start-ups and larger businesses looking to expand or relocate.

Table 5-8: Number of enquiries made to NWLDC regarding business workspace

Time period	Business start-up enquiries	Business expansion/relocation enquiries
April 2020 to October 2020	32 of 179 total enquiries (17.9%)	21 of 179 total enquiries (11.7%)
April 2019 to March 2020	89 of 197 total enquiries (45.2%)	23 of 197 total enquiries (11.7%)
April 2018 to March 2019	58 of 191 total enquiries (30.4%)	10 of 191 total enquiries (5.2%)
April 2017 to March 2018	32 of 195 total enquiries (16.4%)	12 of 195 total enquiries (6.2%)

Source: NWLDC Business Focus

- 5.34** The table shows that since the April 2017 to March 2018 period there has been a steady increase in the volume of enquiries regarding start-up workspace in the district. In the April 2017 to March 2018 period 16.4% of enquiries related to start-up businesses, whereas in the April 2019 to March 2020 period it has increased to 45.2%, indicating that the level of demand for start-up workspace has significantly increased in the last three years. The high proportion of start-up enquiries in the April 2019 to March 2020 period (pre-COVID-19) indicates that start-up accommodation was in high demand prior to the outbreak COVID-19. Interestingly, 32 enquiries have been made by start-ups during the pandemic which indicates that there is still activity, and demand, despite the economic uncertainty presented by the lockdowns. Consultation evidence suggests that the uncertainty of employment in larger companies may be driving potential entrepreneurs to look at starting up their own business.
- 5.35** The rate of the increase of start-up enquiries is significantly faster than the enquiries from businesses looking to expand or relocate, which was 6.2% in April 2017 to March 2018 and 11.7% in April 2019 to March 2020. This indicates that the demand for start-up workspace is higher and increasing faster than expansion/relocation workspace and that the space available for start-up businesses is becoming increasingly limited, and as noted by NWLDC Business Focus, especially those which require spaces in B1 and B2 use categories. This does not mean that move on space for SME's is not important as supply issues are apparent with many relocation enquires not being fulfilled; rather it indicates that the supply of start-up workspace is low while demand is high and the supply of move on space is also limited and may also be constraining the start-up market when businesses wanting to expand/relocate cannot and as such stay in place and do not free up space for start-ups.

Perspectives on small office demand

- 5.36** Consultation evidence suggests that there is low demand for small office space in the district with all property agents indicating this and that any occupier interest is sporadic and not sustained. NWLDC Business Focus is less concerned about office space in comparison to industrial space due to lower levels of demand and activity observed.
- 5.37** Some consultees indicate that the availability of small office space may increase in the next 6 to 12 months due to the impact of COVID-19 restrictions has had on the feasibility of small

businesses requiring office space, or businesses are shifting their workforce to homeworking in order to reduce costs in parallel to reduced revenue. Conversely, some agents indicate that the demand for small offices may increase as businesses with larger floorplates look to reduce the burden of rent on larger unneeded space. However, this could create some problems in the future for start-ups looking to secure affordable office workspace.

- 5.38** City centre locations have also been indicated as being currently unattractive as people and businesses rethink working practices and commuting patterns in the backdrop of COVID-19. It is unclear at this stage what the future will hold for office spaces with the threat of ongoing lockdowns creating uncertainty about when people can return to a physical workspace.

Perspectives on small industrial demand

- 5.39** Consultation evidence suggests that there is strong latent demand for small industrial space in the district. Property agents indicate that demand for small scale industrial units has been strong year-on-year and it is growing. One agent stated that “if a 3000sq ft unit is put on the market 30 bids would be received, while a 1,000sq ft unit would receive more than 40 bids”.
- 5.40** Consultees consider that demand is coming from occupiers, from a generally diverse sector base, citing small scale engineering companies and vehicle related activities, e-commerce and other small-scale distribution, storage and logistics, local trades (plumbers and electricians), and artisan traders. Consultation evidence suggests that occupiers struggle to find appropriate space, especially smaller units, due to lack of supply of appropriate space.
- 5.41** Aside from Apollo Court, there has been very little supply for small industrial units in the past 12 years. Consultation evidence suggests that there is a gap between the supply of and demand for small industrial workspace. This is the result of viability challenges that limit the potential for new small industrial development to come forward. Consultees from the property market sector considered that the development of small industrial space is not viable in the district due to low rental values and high building and fit-out costs; despite evidence of strong latent demand. The rental values generated by large scale distribution and logistics companies mean that smaller units are not a commercially attractive proposition for developers. The availability of appropriate employment sites is also a challenge for the provision of new workspace in the district.

6. Conclusions and next steps

6.1 SQW has carried out this study to assess the nature and level of demand for workspace for start-up businesses in NWL. The evidence suggests that overall, there is likely to be demand for additional small industrial workspace, and that there is limited new supply coming forward. The evidence supports a case to promote the development of small workshop schemes with units up to 100 sq.m, some of which should be available on flexible easy in easy out lease terms and with access to business support services. There is also a case we believe to promote the supply of 'grow on' light industrial space in the range 150 to 500 sq m to ensure the retention of growing businesses in the district. The case for additional small office space is less compelling with uncertainty in the small office market due to the impact of COVID-19 and less confidence observed from consultees. In summary:

- There is likely to be rising demand for small industrial workspace, most of which is locally driven. NWL has seen steady population and employment growth, and this is set to continue. NWL has a relatively entrepreneurial economy which is affirmed by consultation evidence with the Leicester and Leicestershire LEP, with strengths in some growing, high-value sectors. This suggests that there is, in principle, likely to be a growing stock of small businesses with growth potential, to which additional business workspace is likely to appeal.
- While NWL has a diverse business base, there is evidence of some concentration and recent growth in higher value activities. In particular, the Financial & insurance and Property sectors have a large number of micro firms, but in output terms these are not competitive with the country or even the region. Conversely, both the Administrative & support services and Transport & storage sector see, high output and employment growth in the district but this likely stems from larger firms.
- In consultation, agents reported demand from a wide variety of sectors, including small scale engineering companies and vehicle related activities, e-commerce and other small-scale distribution, storage and logistics, local trades (plumbers and electricians), and artisan traders.
- Consultation evidence suggests that occupiers struggle to find appropriate space, especially smaller units, due to lack of supply of appropriate space. Consultation evidence suggests that there is a gap between the supply of and demand for small industrial workspace. This is the result of viability challenges that limit the potential for new development to come forward. Consultees from the property market sector considered that the development of small industrial space is not viable in the district due to low rental values and high building and fit-out costs; despite evidence of strong latent demand. The rental values generated by large scale distribution and logistics companies mean that smaller units are not a commercially attractive proposition for developers.

- Existing supply is constrained. The majority of supply suitable for small industrial businesses appears to be fully occupied, with limited vacancies and opportunities to deliver additional floorspace within existing sites – although some new stock has come forward at Apollo Court, the smaller units are likely to be fully let soon, and there are currently two extant planning permission which will deliver a total of ten small units.
- 6.2** Given ongoing supply constraints, there is a case for action by NWDLC to encourage the development of new industrial workspace for start-up businesses. The evidence suggests that this ‘gap in supply’ is likely to constrain economic growth in the District as businesses looking to grow either stay in unsuitable accommodation which impacts productivity and efficiency and also restricts the supply of workspaces for start-ups. There are a number of ways in which the Council could take action, for example through the planning process by encouraging the development of small start-up units in larger industrial estates, or by making specific allocations, through to more direct forms of intervention through direct development or public private partnership or joint ventures aimed at overcoming the barriers to delivery through to development.

Next steps...

- 6.1** To overcome the supply constraints, a feasibility study will need to be carried out to build on the findings of this study and consider intervention options.

Annex A: List of consultees

Table A-1: Consultee list

Consultee	Role	Organisation
Stacey Harris	Property Officer, Estates and Facilities	NWLDC
Ray Hurst	Business Focus, Economic Development Officer	NWLDC
Jamie Forman	Operational Real Estate Manager Strategic Property Services	Leicestershire County Council
Andy Rose	Economic Strategy Manager (Place)	Leicester & Leicestershire LEP
Tori Whinder	Senior Surveyor	Howkins and Harrison
Alex Reid	Head of the Commercial Department	Mather Jamie
Information provided on behalf of Kevin O'Dell	Senior Surveyor	Berry's Consulting
Reg Pollock	Commercial Property Agent	APB
Chris Proctor	Sales and letting agent (office and industrial)	FHP Property
Richard Tilbrook	Surveying Director	Roger Etchells

SQW

www.sqw.co.uk

About us

SQW Group

SQW and Oxford Innovation are part of SQW Group.

www.sqwgroup.com

SQW

SQW is a leading provider of research, analysis and advice on sustainable economic and social development for public, private and voluntary sector organisations across the UK and internationally. Core services include appraisal, economic impact assessment, and evaluation; demand assessment, feasibility and business planning; economic, social and environmental research and analysis; organisation and partnership development; policy development, strategy, and action planning. In 2019, BBP Regeneration became part of SQW, bringing to the business a RICS-accredited land and property team.

www.sqw.co.uk

Oxford Innovation

Oxford Innovation is a leading operator of business and innovation centres that provide office and laboratory space to companies throughout the UK. The company also provides innovation services to entrepreneurs, including business planning advice, coaching and mentoring. Oxford Innovation also manages investment networks that link investors with entrepreneurs seeking funding from £20,000 to £2m.

www.oxin.co.uk