



NORTH EAST LEP COMMERCIAL PROPERTY INVESTMENT FUND



Context

- Sanderson Weatherall LLP and J C Gill and Co Limited are supporting North East LEP in developing a new Commercial Property Investment Fund.
- We've made steady progress bringing together a broad consensus from diverse partners and have benefitted from significant critical friend support from many of you.
- Project initially slowed by Covid
- Fund is now recognised as an important part of the Covid Response for the regional economy – by supporting the regional property market – and we are now in a position to get on with it.



North East LEP (NELEP) – Commercial Property Investment Fund

Problem:

“job creation and the growth of key sectors in the North East are being held back by the market not delivering sufficient high-quality business premises. In particular, there is a severe undersupply of industrial space which is making it difficult for the region to attract inward investment and support the growth of local businesses”.

Solution:

“The CPIF will be an investment fund that finances almost viable property & regeneration projects throughout the NELEP area in pursuit of SEP objectives. It will be a revolving fund accompanied by separate pot(s) offering incentive funding to address market failure. It will be managed externally and will continue to commit its funds into further development and growth to contribute to achievement of the SEP. Support will be available in the form of senior debt and incentive funding designed to de-risk the senior debt loan”

(Source: HATCH Regeneris Ex ante Evaluation Phase 2 Report)



North East LEP (NELEP) – Commercial Property Investment Fund – Funds – Emerging Offer

Up to £1m – North East Property Development Fund – FW Capital

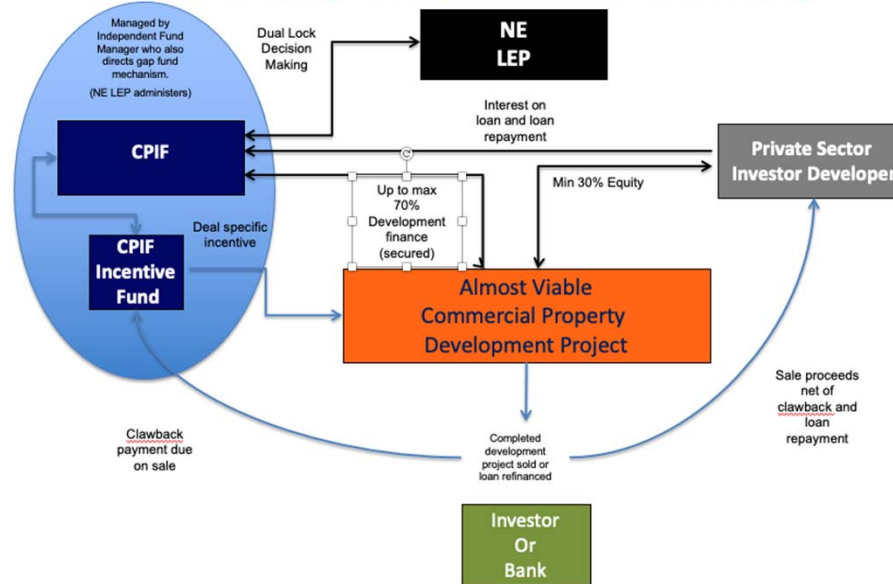
£1m to £7m – Commercial Property Investment Fund – This fund - in development

Over £7m – Potential investor – aligned objectives - Discussions progressing



North East LEP (NELEP) – Commercial Property Investment Fund

Commercial Property Investment Fund – Illustrative Flow Diagram



Source J C Gill & Co Limited



North East LEP (NELEP) – Commercial Property Investment Fund - Illustration

PROJECT:	EZ Business Space Development (Private Developer)			
	Applicant	CPIF/LEP	LA	Comment
Value				
Cost	Funded by Equity, Development Finance and Incentive			
Equity	Min: 30%	0	0	Developer own cash
Development Finance		70% CPIF secured senior debt	0	
Incentive (Could be equity)		LEP/CPIF Subject to State Aid Rules CPIF may discount interest rates Other e.g. 2 years void business rates or rent guarantees.	Alternatively LA provides until BRGI generated then CPIF steps in.	CPIF may provide to get a development underway.



North East LEP (NELEP) – Commercial Property Investment Fund - Illustration

PROJECT:	Non EZ Business Space Development (Private Developer)			
	Applicant	CPIF	LA	Comment
Value				
Cost	Funded by Equity, Development Finance and Incentive			
Equity	Min: 30%	0	0	Developer own cash
Development Finance		70% CPIF secured senior debt at rate appropriate to appraisal risk	0	
Incentive (As Equity)		2 years void business rates	0	CPIF may provide to get a development underway.



North East LEP (NELEP) – Commercial Property Investment Fund – Ex Ante Appraisal

- Confirmed need for the fund evidenced by clear market demand.
- North East is at a competitive disadvantage without the fund given successful operation of similar funds established in other regions.
- *“Clear evidence that job creation and the growth of key sectors in the North East are being held back by the market not delivering sufficient high-quality business premises. In particular, there is a severe undersupply of industrial space which is making it difficult for the region to attract inward investment and support the growth of local businesses. Therefore, by helping to increase the delivery of new commercial development, CPIF will respond to the LEP’s central objective of creating “more and better jobs”.*

(Source: HATCH Regeneris Ex ante Evaluation Phase 2 Report)



North East LEP (NELEP) – Commercial Property Investment Fund – Appetite for Managing the Fund

- *“Certainly demand for this type of fund, that has been demonstrated by the pipeline of suggested projects that was provided and is also supported by our own market research”.*
- *“We spoke to potential users of the Fund - Mainstream lenders have pulled back from smaller scale development finance and speculative development in particular is something that the market is not able to readily support”.*
- *“The focus of new industrial commercial development looks appropriate at the present time but must retain flexibility to support different types of commercial development as during the investment period markets will change and demand may be seen in other sectors”.*
- *“We are fully supportive of the comments made by Hatch Regeneris that there should be no specific geographic focus within the NELEP area. A demand led fund will be deployed more quickly and should lead to higher financial and non-financial returns”.*



North East LEP (NELEP) – Commercial Property Investment Fund – Fund Governance

- PME exercise revealed unanimous preference for a formal legal structure for the fund – proven financial and operational advantages
- GP/LP legal structure preferred – tried and tested approach used by similar funds, better risk management, operationally effective, nimble, see-through from Partner to Fund Level to provide assurance.
- Incorporates proven role of LEP Investment Board acting as a GP, signing off Incentives (State Aid compliant) and providing delegated authority on commercial loans/Investment & Operating Guidelines to Fund Manager to ensure flexibility.
- Necessary legal assurance being sought on approach.
- Final decision will come back to LEP Board as part of the decision to appoint Fund Manager.



North East LEP (NELEP) – Commercial Property Investment Fund – Pilot Projects Development

- £2m GBF funding earmarked for pilot CPIF projects.
- 4 expressions of interest received from pipeline for loan and incentive funding for new speculative industrial accommodation – all drawn from existing pipeline.
- EOI 1 has resulted in a full application for incentive funding with overage provisions & an offer has been made – Industrial.
- EOI 2 is an application for loan and incentive funding and is under appraisal – Industrial.
- EOI 3 involves a partnership approach to deliver new speculative industrial accommodation involving the developer, Local Authority partners and NE LEP - discussions are progressing.
- EOI 4 – exploratory discussions between NE LEP and developer continue – Industrial.



North East LEP (NELEP) – Commercial Property Investment Fund – Funding a £35m loan fund

- An initial facility of £35m is envisaged to create the Commercial Property Loans Fund. The fund life is envisaged to be 15/16 years.
- The funding is proposed to be found from the North East Investment Fund (NEIF), which will take the full risk of the loss of any funds.
- The fund procurement will allow for the possibility that the fund will be increased by a further amount from year 4/5 onwards, if this is approved by the LEP and subject to satisfactory fund performance and availability of funds.
- The transfer of the £35m into the Fund would take place over the next three years in stages, on a timetable to be agreed with the successful fund manager.
- The Loans Fund will target considerable economic development outputs, and there is evidence from other similar property funds that it should generate a positive return, generating interest and surpluses for the NEIF after year 5.



North East LEP (NELEP) – Commercial Property Investment Fund – Funding “Incentives”

- There is a need to be able to consider “incentives” as well as loan finance so that important almost viable schemes can be implemented. Not all deals will require incentives - as the smaller NE Property Development Fund demonstrates.
- The incentives that will be required can vary from deal to deal, including funding of abnormal costs (gap fund with overage provisions); risk cover such as rental guarantees (only called upon if required) and possibly longer-term lease wraps.
- Funding for incentives (up to £15m) will need to be found before they can be approved individually by the LEP (IB). A range of funding sources are envisaged -
 - Use of Government Grants (e.g. GBF, Shared Prosperity Fund);
 - Enterprise Zone Surpluses – in medium / longer term – e.g. for lease wrap costs;
 - Reinvesting surpluses from the CPIF or other Property Funds, once interest costs have been covered; and
 - Agreed use of the NEIF to cover risk or to fund expendable costs.



North East LEP (NELEP) – Commercial Property Investment Fund – Pipeline Development

- Pipeline project development continues – 18 live proposals.
- Initial interest from projects delivering new industrial accommodation.
- Proposal for Office refurbishment recently received – likely to be medium term.
- Market communication and engagement activity will be ramped up from January 2021.

Summary of Project Pipeline	
Development Type	Location
9 Industrial Projects	7 – South of Tyne 2 – North of Tyne
1 Trade Park	South of Tyne
5 Office Projects	3 – South of Tyne 2 – North of Tyne
3 - Mixed Use – Office/Resi/Retail	1 – South of Tyne 2 – North of Tyne



North East LEP (NELEP) – Commercial Property Investment Fund – Application Process

- Pilot fund over subscribed.
- We continue to develop pipeline of projects to hand over to the new fund manager – some projects will drop away others will come in.
- Expression of Interest Form available for you to submit EoI to NE LEP.
- Form available from Matt Ehattson at NE LEP.
- EoI will be considered by NE LEP Project Team.
- Inclusion on pipeline no guarantee of investment.
- Fund Manager Procurement process will be used to further develop and refine the investment & operating guidelines, detailed applications & appraisal process.



North East LEP (NELEP) – Commercial Property Investment Fund – Delivery Timetable

Activity	Meeting	Date	Commentary
Decision to proceed with procurement	LEP Board.	Dec 2020	Approve Procurement of CPIF Fund Manager
BEIS Closure of RGF NEIF Programme	N/A	Jan – Feb 2021	Signed Off Closure Report by BEIS FISC Committee.
Commence Formal Procurement of Fund Manager – Competitive Dialogue	CPIF Steering Group	April – Dec 2021	Anticipate formal procurement process starts early April 2021 and closes late November 2021.
Legal services to support procurement & develop fund structure	CPIF Steering Group	January 21 – Mar 22	Support procurement and development of fund structure
Final Competitive Dialogue with preferred Fund Manager	CPIF Steering Group	Nov 2021	
Decision to appoint	LEP Board.	Dec 2021	Confirm appointment of Fund Managers
Procurement Standstill		Dec 21 – Jan 2022	
Soft Launch		March 2022	Fund Manager in place.



Please keep in touch and talk to us about potential pipeline projects

Matt Ebbatson – Programme Manager North East LEP - matthew.ebbatson@nelep.co.uk

Simon Elliot – Partner & Head of Public Sector – simon.Elliott@sw.co.uk phone 07872 378061

Chris Gill – Consultant —chris@jcgill.co.uk phone 07783 896634





North East LEP 1 St James Gate, Newcastle upon Tyne, NE1 4AD
Tel: 0191 561 5420 | Email: info@nelep.co.uk | nelep.co.uk | [@northeastlep](https://twitter.com/northeastlep)

