

<b>Report of:</b>	Executive Member for Regeneration Director of Regeneration
<b>Submitted to:</b>	Executive
<b>Date:</b>	14 February 2022
<b>Title:</b>	Boho 11 – Expansion of the Digital Sector
<b>Report for:</b>	Decision
<b>Status:</b>	Public
<b>Strategic priority:</b>	Town centre
<b>Key decision:</b>	No
<b>Why:</b>	Decision does not reach the threshold to be a key decision
<b>Urgent:</b>	No
<b>Why:</b>	Not applicable

**Executive summary**

The purpose of this report is to seek approval to explore the expansion of the Digital Sector at Boho through the development of Boho 11, the report will:

- note the progress that has been made in developing and supporting the Digital Sector in Boho/Middlehaven;
- highlight that through the successful lettings of Boho 8 and Boho X there is a further need for additional office development to support the further growth of the sector;
- establish the rationale with a view to undertake feasibility works to ascertain the potential costs and delivery mechanisms for Boho 11; and,
- present a further report and business case to Executive, for the delivery of Boho 11;

## **Purpose**

1. The report seeks approval from Executive to undertake feasibility works to support the expansion of the Digital Sector in Boho/Middlehaven through the development of Boho 11, which will see circa 35,000 of high quality office development.

## **Background and relevant information**

2. As set out in previous reports to Executive, the Digital Strategy for Middlesbrough built on the historical partnership with Digital City and Teesside University and aimed to set out a clear, long term strategy designed to support further development of a vibrant cluster in the heart of Middlesbrough
3. In consultation with the sector, the Council developed a strategic approach to enabling the long term accommodation requirements for the rapidly expanding digital sector in Middlesbrough through the development of new build accommodation, conversion of existing properties and exploration of models to support long term ownership of private properties. This was geared at providing an environment to support business start up and allowing existing companies within the sector to grow and mature within the cluster creating a critical mass that is also appealing to companies outside of Middlesbrough, attracting inward investment.
4. The development and management of Boho 1 and Boho 5 has established the Boho zone, creating a strong digital community that delivers significant local economic benefits. In January 2020, Executive acknowledged the need to additional accommodation due to the rapid growth within the sector both locally and nationally and approved the development of Boho 8, 10,000 sqft – modular construction and Boho X, 60,000 sqft of grade A office accommodation and high quality public realm to create a campus feel and expand the cluster.
5. Boho 8 completed in Mar 2020 and is fully let with 3 companies occupying the space. Boho X is currently on site and due for completion in April 23 with a full pre let already agreed with a major tech based company. This has demonstrated that despite the change in working habits and increase in blended working contracts there is still significant demand for office based presence in Middlesbrough.
6. Not withstanding Boho X we are seeing strong demand within the digital sector for additional space within the Council's operated buildings and private sector offerings. The Council has received a number of enquiries already for any available space within the existing Boho buildings. Upon completion of Boho X, once any residual space within Boho 1 and 5 have been filled, the Council managed assets within the Boho area will be at capacity.
7. The New Skills Demand Study carried out in 2019 identified that there was the requirement of an upper level of an additional 90,500 sqft. The study did not factor any relocation from outside of the Tees Valley or the exponential windfall growth of the company moving into Boho X.
8. The private sector could support in providing accommodation for the digital sector in the short term. It is anticipated that the development of Boho 11 would be circa 24 months

from approval of business case, this timeframe would ensure that new accommodation is available in a timely manner to support the further expansion of the sector.

9. Whilst the Digital Sector is rapidly expanding and companies are experiencing growth, the nature of the sector is that many maturing companies have ambitions to expand into high quality offices but do not have the capital resources/strength of covenant to fund their own development and the relatively low financial yields on development means the private sector will not deliver. Without public sector intervention the sector is unable to expand further and mature.
10. There have been many instances where the public sector has taken an active role in development to facilitate the regeneration of an area to support the growth of priority sectors; provide increased market confidence and provide financial returns.
11. The Council investing in new developments is well established through the successful delivery of projects such as: the Holiday Inn Express, Centre Square Buildings 1, 2 and 6, Teesamp Phase 1 and the Boho 1,5,8 and X has proven successful in the regeneration of Middlesbrough.
12. The Council's approach to investment has been prudent and does not place a focus of the investment purely for financial return, rather aligning the ambition for more and better paid jobs with proper commercial consideration and due diligence. The investment to date has been extremely successful in attracting new business, supporting business growth, creating direct employment opportunities with further job creation for local people within the construction industry and supply chains whilst and also supporting the wider town centre economy. The investment has also provided the necessary commercial returns in terms of rental and business rate income that support the revenue provision of Council services for the residents of Middlesbrough.
13. The development of additional office space within the Boho area would further support the rebalancing of the town centre economy which is heavily reliant retail. The digital sector has a very positive impact upon wealth creation within the local economy. Depending upon the sector definition used, it is estimated Gross Value Added (GVA) within the digital sector is £57,000 per annum which is higher than the Tees Valley average of £48,000.

## **Governance**

14. A project brief for Boho 11 has been through the Council's Project Management Framework and approval process. Following the feasibility works the delivery of any project will follow the Council's PPM Framework with a Project Board established to oversee the project and make all decisions. At this stage it is proposed that the project will be managed by the Council's Capital Projects Team who will report to the Project Board on a monthly basis. This will then feed in to the monthly DMT/LMT performance monitoring arrangements.
15. The proposed site of Boho 11 sits within land that has been identified to be transferred as part of the Mayoral Development Corporation (MDC) that is in the process of being

considered by the Secretary of State for Levelling Up, Housing and Communities. Should approval be granted by the Secretary of State, a delivery route will be agreed with the MDC.

## **Boho 11 Feasibility**

16. As part of the wider Middlehaven masterplan a site located to the north-east of Boho X just off Feversham Street (appendix 1) has been identified as a development plot for Boho 11. This would extend the current Boho campus and provide a buffer between the commercial area and future residential development.
17. The location and size of site would lend itself to a building in the region of 35,000 sqft (net) and given the proximity to residential development would be no more than 4 storeys in height. There is limited space available within the site for any onsite parking, Middlehaven is served by excellent transport links in terms of car, public transport and cycling, on this basis it is proposed that parking is directed to Council owned car parks within a walkable distance.
18. In order to determine if the development is viable it is proposed to undertake a full feasibility assessment with an indicative building design and development appraisal with including a budget allocation for letting agent, legal and marketing fees. This will determine the suitability of the site for a new office development and establish a high level development cost and demonstrate if a return on investment to the Council can be achieved through rental and business rate income. The viability appraisal will also consider the wider regeneration benefits of delivering a new development for the digital sector.

## **What decision(s) are being recommended?**

That Executive:

- Approve the commencement of full feasibility works including an indicative building design and development appraisal with a view to preparing a business case to progress the development of Boho 11; and,
- Following the feasibility works a further report be presented to Executive highlighting the viability of any development.

## **Rationale for the recommended decision(s)**

19. The development of Boho 11 would support the further development of the Digital and Creative sector in Middlesbrough providing a critical mass of accommodation that will allow existing companies to expand and attract new companies and employment opportunities to Middlesbrough.
20. Undertaking the feasibility works, development appraisal and business case will determine if the development would be feasible and highlight any potential financial returns to the Council. It will also assist in determining the further regeneration benefits

of the development such as the creation/supporting employment through the construction and supply chain and the wider town centre economy.

**Other potential decision(s) and why these have not been recommended**

21. A summary of the options considered is detailed below:

Option	Consideration	Decision
Option 1 - Do nothing	This option would not support the Council's strategic priorities and would see the not support the further expansion of the Digital Sector. This could see expanding companies relocate outside of Middlesbrough. The development is unlikely to be viable to the Private Sector	Discard
Preferred Option – Feasibility, Development Appraisal and Business case for the development of Boho 11	This option will allow the Council to ascertain the viability in the further expansion of the Digital Sector through the development of Boho 11.	Proceed

**Impact(s) of the recommended decision(s)**

**Legal**

22. All appointments associated with the project will be subject to the Council's standing orders or procurement frameworks.

23. The site of Boho 11 is covered within the option agreement with BCEGI, therefore should the Council wish to proceed with the development of Boho 11, approval will be required from BCEGI to vary the option agreement to remove the Boho 11 site for the Council to proceed with the development.

**Strategic priorities and risks**

24. Strategic risk highlighted below

Risk No	Risk Description	Impact
O1-005	If poor economic growth occurs, then this will reduce public and private sector investment in the town, including town centre retail, housing development and business.	This feasibility works seek to ensure that there is further development in Middlehaven to support the growth of the Digital Sector. Should Boho 11 proceed it will support the further growth of the towns economy.
O1-069	If the development of the wider Middlehaven masterplan is not delivered by the Council and its Residential, Commercial and Education partners this may lead to pupils being displaced and missed opportunities for developing the area resulting in a financial impact on the MTFP and reputational damage.	By developing Boho 11 this will have a positive impact on this risk.

O1-057	If new homes/apartments are not developed to expand the Urban Living Offer, it could impact on the Council's ability to diversify the town centre economy and have a negative impact on the retail sector, a negative impact on the MTFP in relation to Council Tax income, and cause reputational damage.	The development of Boho 11 will allow development to proceed as planned, making the area more attractive to housebuilders, supporting the wider town centre economy and the revenue identified within the MTFP
O1-059	If investment in additional office development is not delivered, this will lead to the slow down for the delivery of the Commercial and residential development of west and south side Middlehaven sites and possible large parts of Middlehaven remaining undeveloped. This will result in the Mayor's ambition for Middlehaven not being realised; reducing inward investment in to the area, reduction in job creation and impact on the Council's financial resources through loss of business rates and Council tax.	The development of Boho will strengthen the Digital sector in Middlesbrough, attracting new business growth and making the wider Middlehaven site more attractive to housing developers and people looking to move to Middlesbrough, supporting the Council's MTFP.

***Human Rights, Equality and Data Protection***

25. There will be no detrimental impact on any protected groups as part of the viability works, therefore an Impact Assessment will not be required. Any data collected will be held and used for internal purposes. A full impact assessment will be undertaken as part of the completion of the feasibility works and further report to Executive.

***Financial***

26. The feasibility works are anticipated to cost £30,000, this will be funded from any residual funds from the Boho X delivery budget. Following the completion of the feasibility works, a further report will be presented to Executive which will include the financial information including the financial viability of the project and funding options.

## Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Procurement of Design Team to prepare indicative layout	Michael Canavan	Apr 23
RIBA Stage 1 and 2 Design and costs	Michael Canavan	Jul 23
Development appraisal and Business case	Michael Canavan	Aug 2023
Report to Executive	Michael Canavan	Sep 2023

## Appendices

1	Site plan
2	
3	

## Background papers

Body	Report title	Date
Executive	Future Development of Middlehaven	February 2021

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