

# The Return on Investment from Innovation Centres

Chris Allington

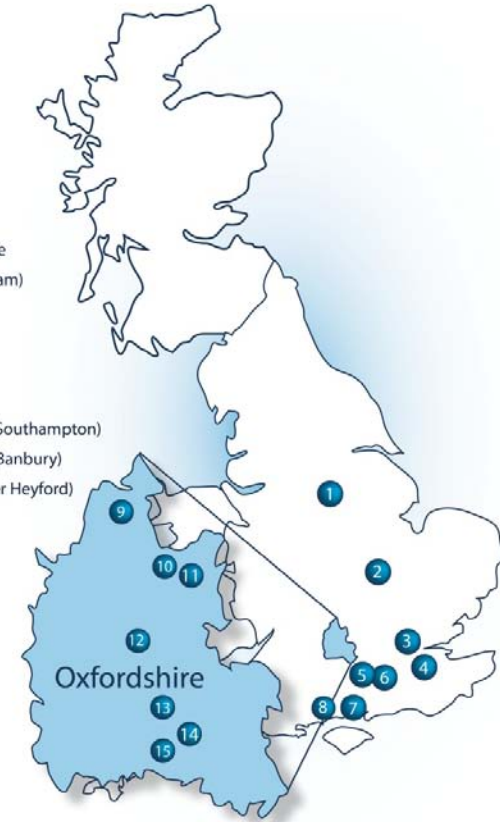
Managing Director – Business and Innovation Centres



# Oxford Innovation

- Part of SQW Group (£17M t/o, 180 staff)
- Managers of 15 (+3 Apr-11) Business and Innovation Centres
- 400 (500) companies plus 130 virtual office clients
- 40 staff involved in entrepreneurship/innovation advice and mentoring:-
  - Grow Cornwall
  - West Midlands Innovation Programmes
  - Saudi National Biotechnology Incubator
  - Three leading Angel networks

- 1 Barnsley Digital Media Centre
- 2 Wellingborough Innovation Centre
- 3 CEME Innovation Centre (Dagenham)
- 4 The Nucleus (Dartford)
- 5 Crowthorne Enterprise Centre
- 6 Lily Hill House (Bracknell)
- 7 Portsmouth Technopole
- 8 Ocean Village Innovation Centre (Southampton)
- 9 Colin Sanders Innovation Centre (Banbury)
- 10 Cherwell Innovation Centre (Upper Heyford)
- 11 Bicester Innovation Centre
- 12 Oxford Centre for Innovation
- 13 Culham Innovation Centre
- 14 Milton Park Innovation Centre
- 15 Harwell Innovation Centre



# Some of our Centres



Barnsley Digital Media Centre



CEME, Rainham



Milton Park Innovation Centre



The Nucleus, Dartford



Culham Innovation Centre



Crwothorne Enterprise Centre



Oxford Centre for Innovation



Ocean Village Innovation Centre



Portsmouth Technopole



Bicester Innovation Centre



Wellingborough Innovation Centre



Colin Sanders Innovation Centre



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- Alumni Research



# Innovation Centres: Roles and Functions

## The Innovation Centre Landscape

### ENTERPRISE AND ENTREPRENEURSHIP

- Supporting the development of knowledge based economies
- Incubating new businesses
- Landing zone for inward investment
- Priorities based on regional economic development agenda
- Grow and move-on strategies:-
  - Broader economy
  - Science Parks

### STRUCTURAL ECONOMIC SHIFT

- To stimulate growth of new sectors and industries
- Sector focussed
- Growing an eco-system

### R&D CENTRES

- A 'translational infrastructure' that bridges research and technology commercialisation
- Technology focussed
- First step for spin-out companies



# Innovation Centres: Outputs

## The Innovation Centre Landscape

### ENTERPRISE AND ENTREPRENEURSHIP

- **Economic**
  - New businesses
  - Stronger, more diverse
- **Social**
  - Aspiration
  - Employment
- **Financial**
  - Initially - Sustainable
  - Ultimately - Commercial Return

### STRUCTURAL ECONOMIC SHIFT

- Long term regional employment
  - Globally competitive businesses in growth sectors
  - Broader support economy

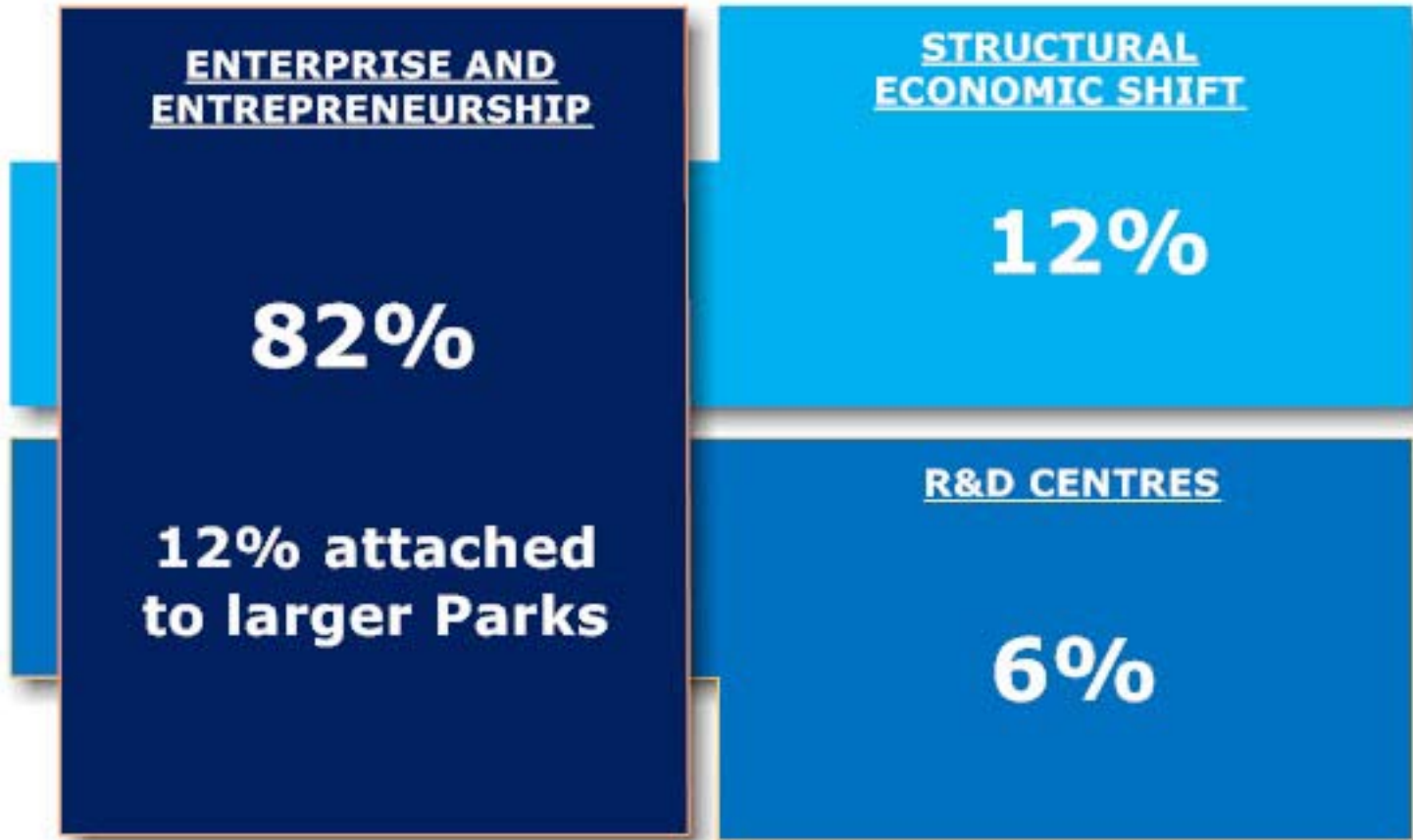
### R&D CENTRES

- Commercialisation of intellectual property
  - Globally competitive UK businesses
  - Major UK economic impact
  - Retention of long term value in the UK



# Innovation Centres: OI Portfolio

## The Innovation Centre Landscape

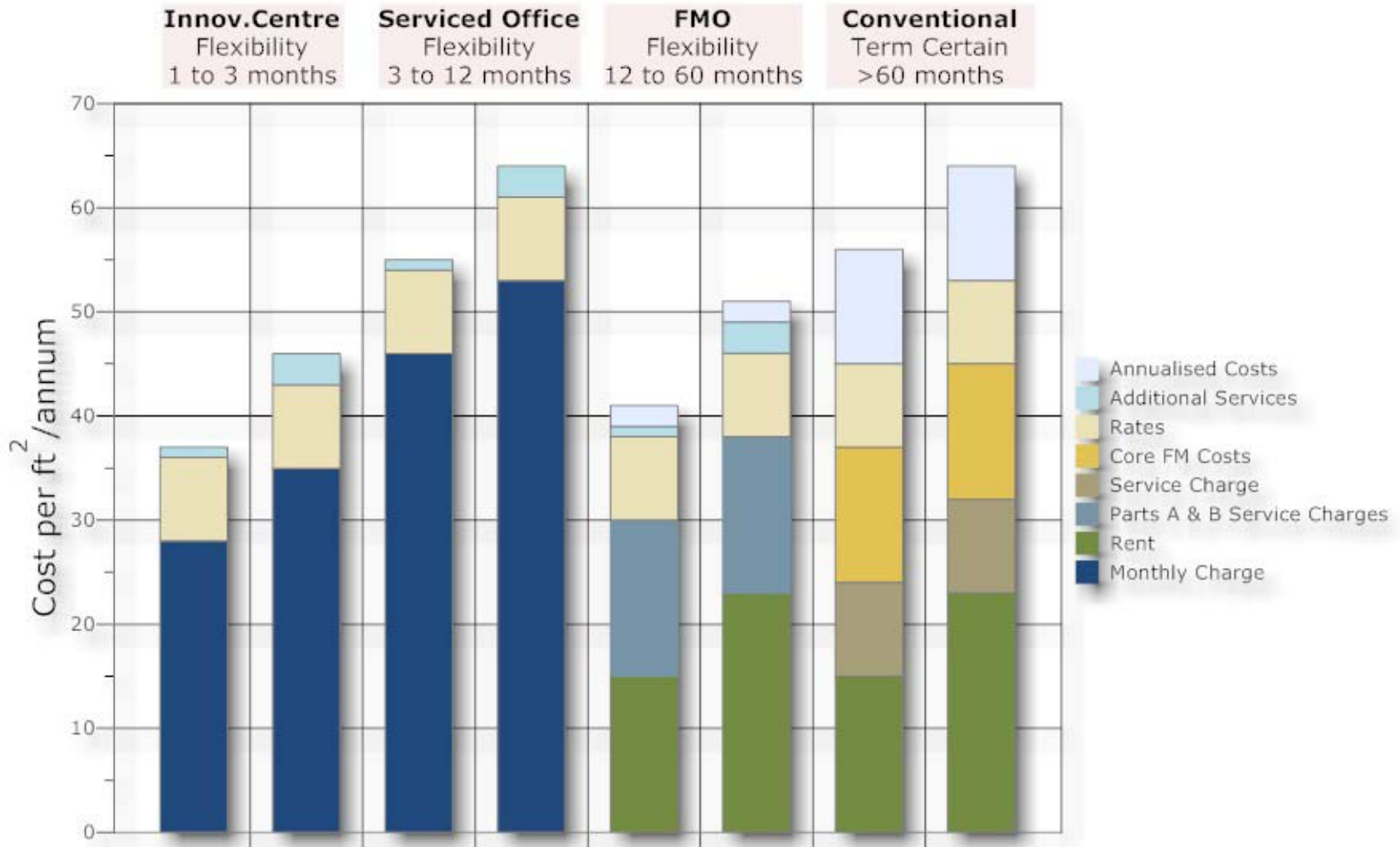


# But surely Innovation Centres subsidise the occupier?

- A common misnomer
- A few programmes that assist in early-stage start-up businesses:-
  - RiSE, Genesis
  - Time limited, separately funded
  - Rigorous qualifying criteria
- There should always be a relationship between innovation centre costs and the rest of the property market
- Offer affordable services (Virtual Tenant)



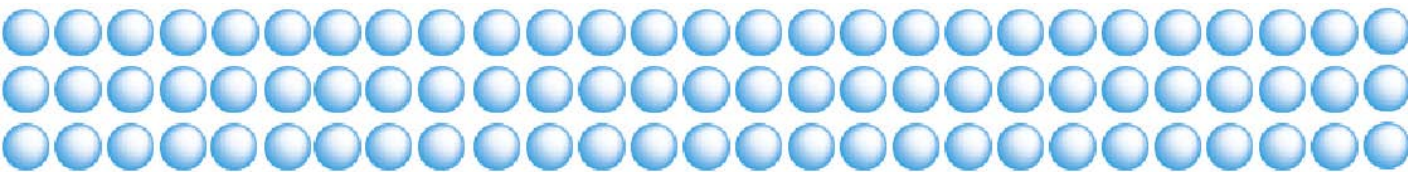
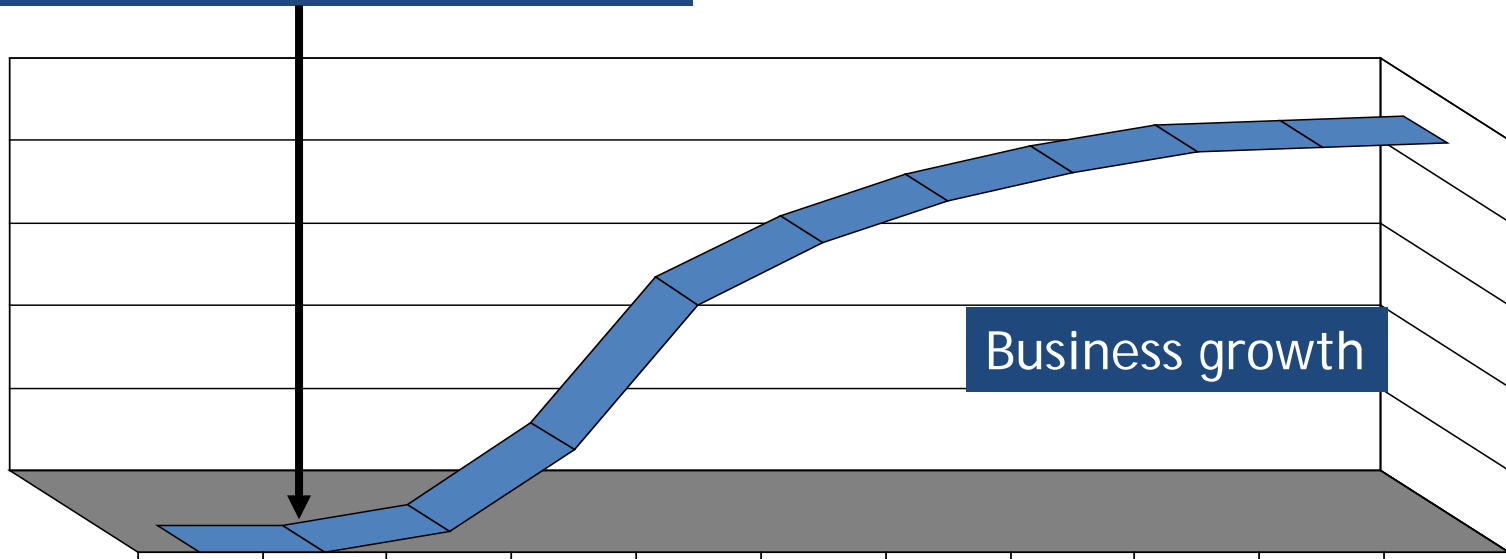
# Product Pricing



# The Occupier Dynamic

## Embryonic

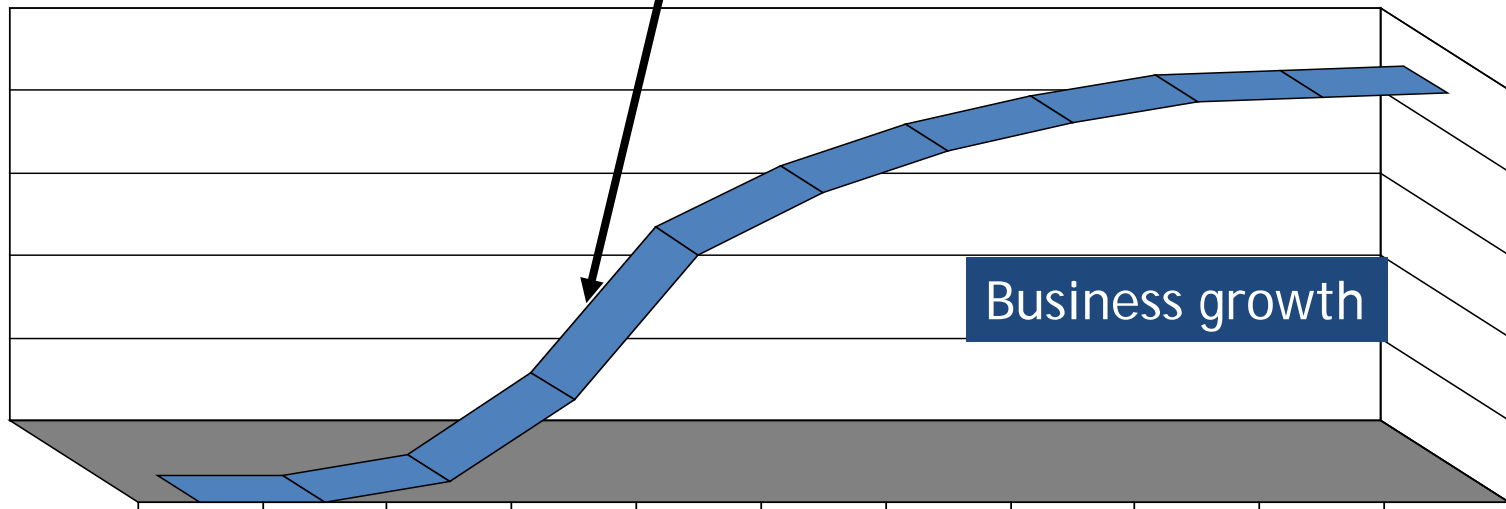
- Virtual office
- 100% flexible cost base
- Access to business mentoring
- Access to business networks



# The Occupier Dynamic

## Growth

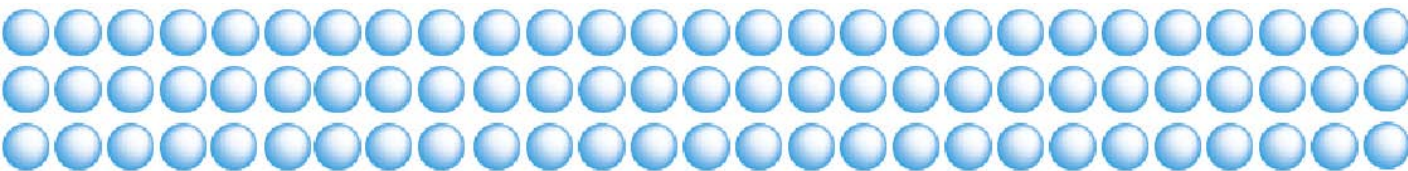
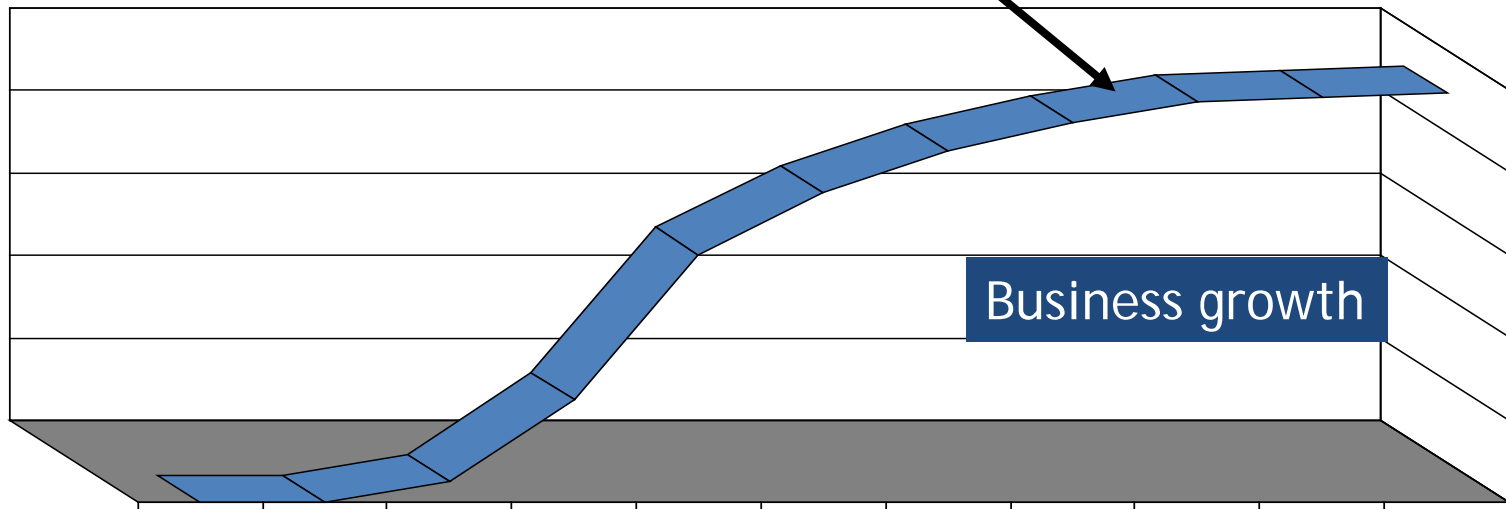
- Flexible property solution
- Cost base and liabilities - short term and certain
- Access to business support
- Access to business networks
- Being part of a business community



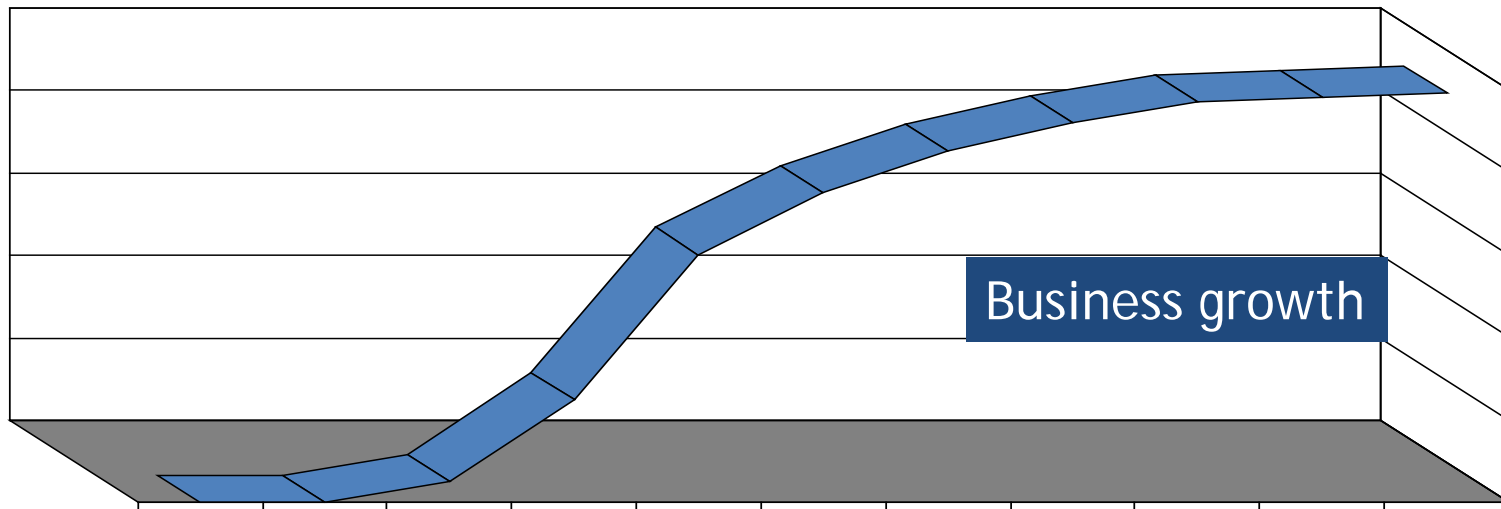
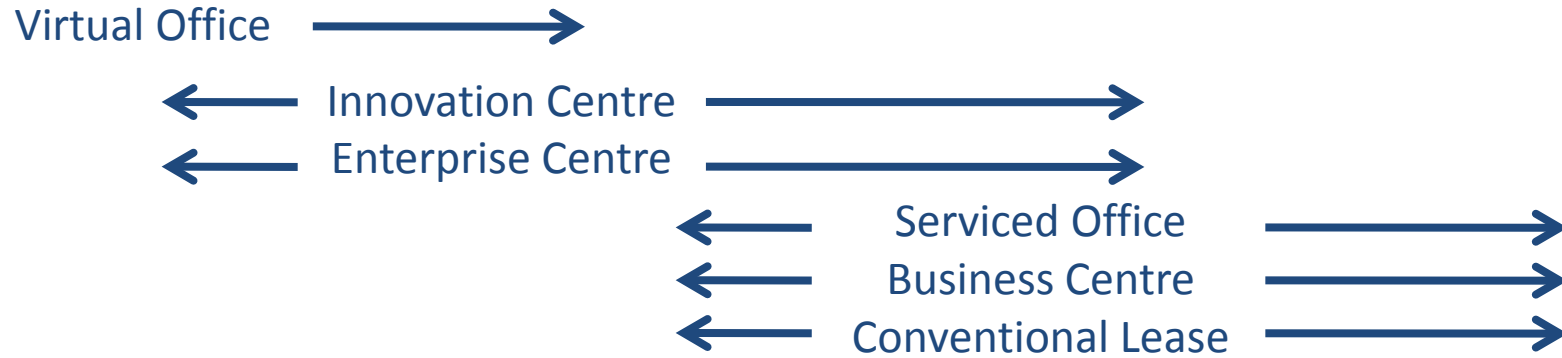
# The Occupier Dynamic

## Maturity

- Consider own premises
- Take property advice
- Cost base and liabilities - Term and certainty
- Leadership role in business community & networks



# The Property Dynamic



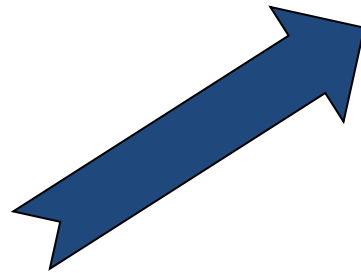
# Role of the Public Purse

<b>Net lettable</b>	<b>Public Funded when started</b>	<b>Public Funded now</b>	
<b>339,764 sf</b>	<b>60%</b>	<b>39%</b>	<b>by sq.ft.</b>
<b>31,274 sm</b>	<b>63%</b>	<b>39%</b>	<b>by quantity</b>

- Centres private sector funded from the start
  - Wider park or portfolio agenda
  - Planning gain opportunity
  - Market research demonstrated small occupier demand
- Later private sector investment
  - Performance (income) track record
  - Delivery of initial grant funding obligations



# Conventional property management market



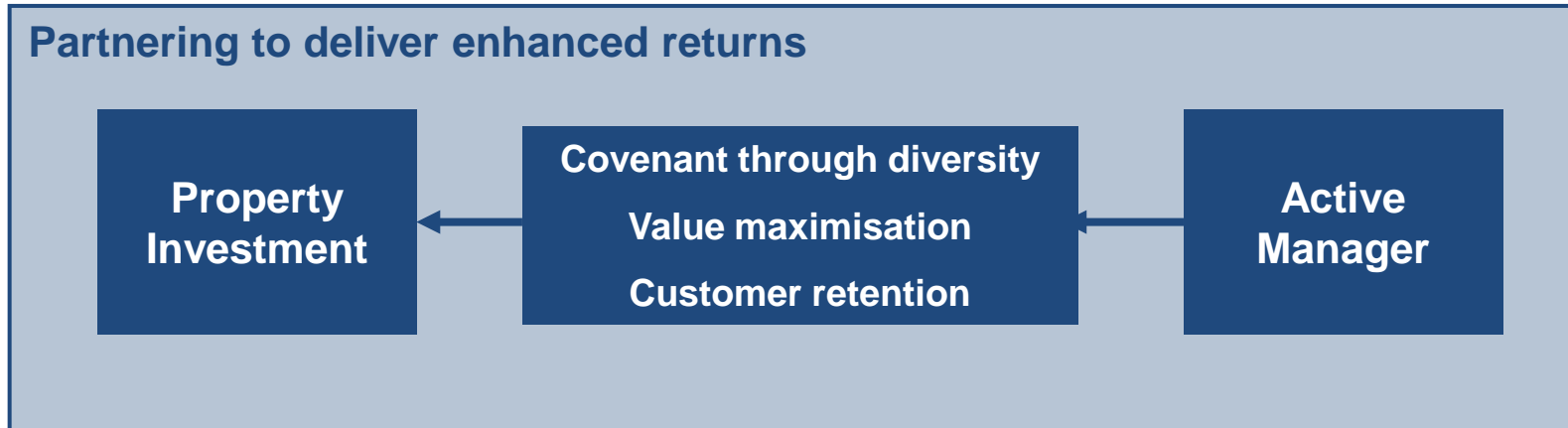
**Quasi flexible**  
Recurring letting voids  
Incentives needed to compete  
Static yields  
Poor covenant occupiers

**Let and forget**  
Valuation growth through:  
Yield shift  
Rental growth  
Long occupier leases

**Growing need  
for active  
management**



# Innovation Centres Roles and Functions



## Opportunity Profile

- Managed tenants (customers)
- Improved covenant and occupancy levels
- Increased asset value

## Market Pressures

- Shorter lease lengths
- Greater market volatility
- Serviced business space demand
- Investor demand exceeding investment property supply



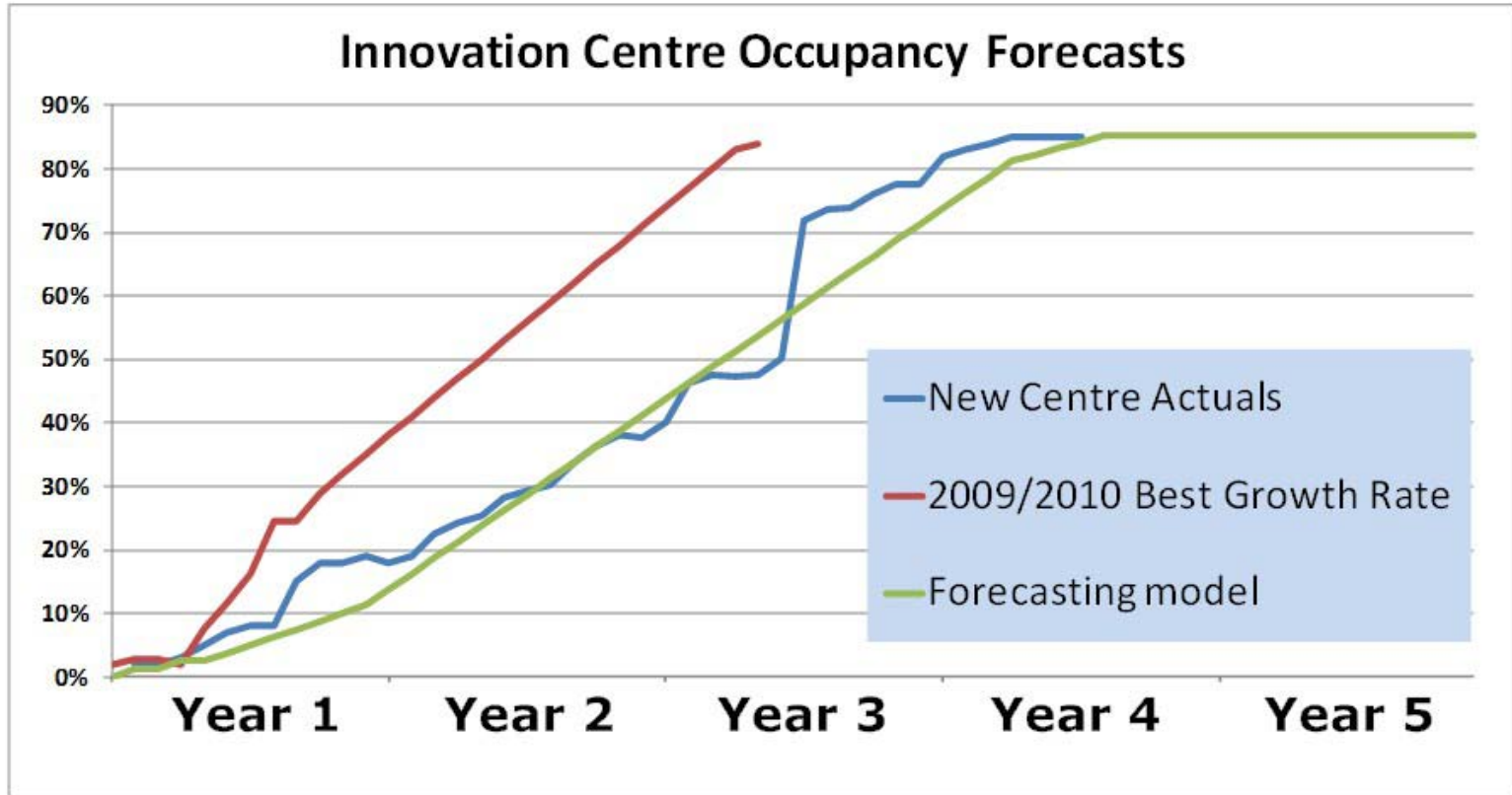
# Solutions Offered

	Innovation Centre	Serviced Office	Flexible Lease	FRI Lease
Monthly charge				
Fully Serviced				
Furniture			Add. Cost Service	
Telephone/data				
Fitted out			Add. Cost Service	
Meeting/Conf. rooms				
Front of House Services				
Dilapidations				
Business Support				



# Case Study – New Centre

## Centre Letting Forecast



# Case Study – New Centre

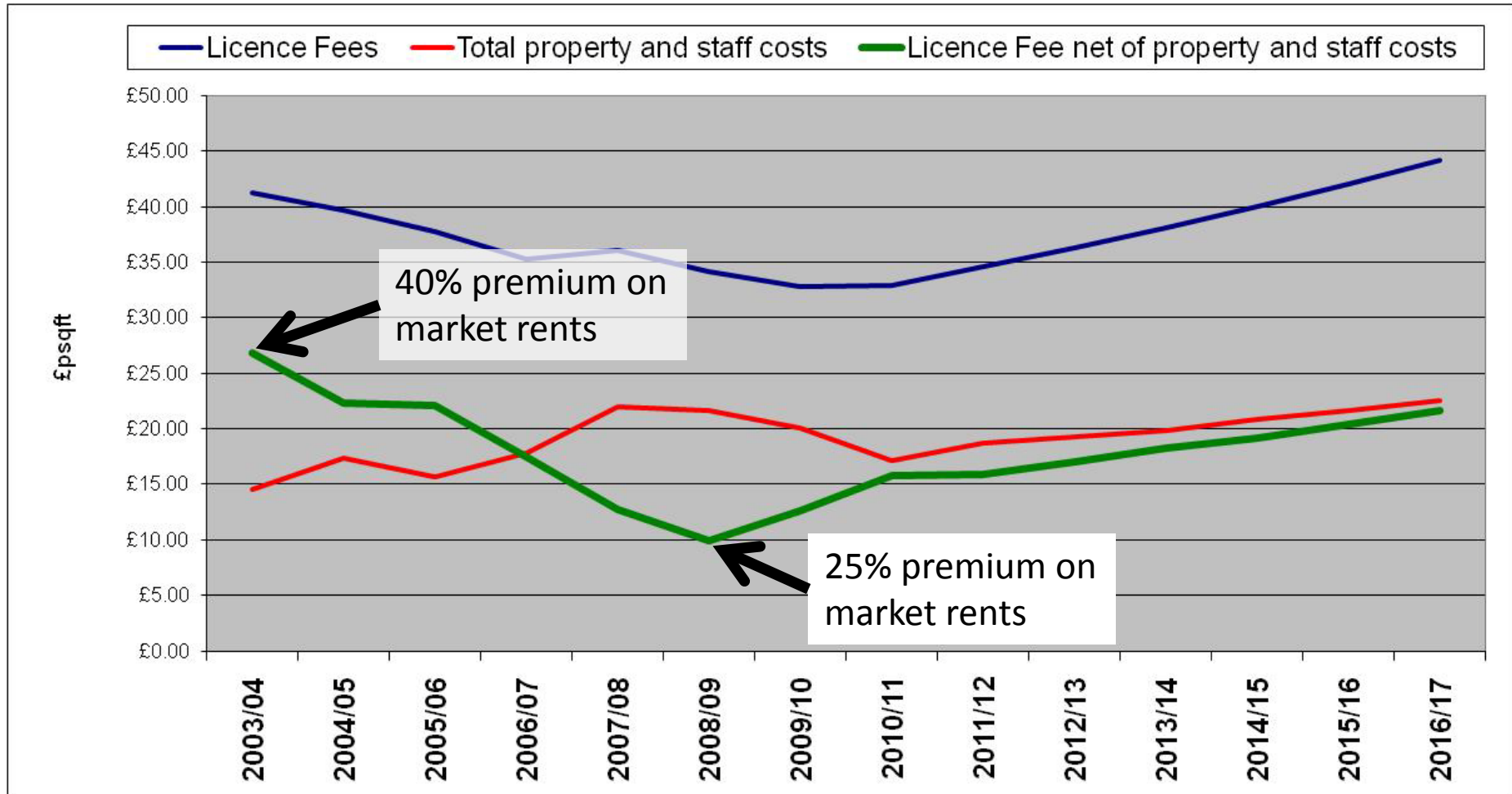
## Centre Letting Forecast

		Cashflow 5 year NPV @6%	Year 5 Net Income
<b>Business/Innovation Centre</b>	High Case	£731k	£650k
	Low Case	£242k	£500k
<b>Traditional Cashflows</b>			
Single occupier 12 months post completion, 12 months rent free		£993k	£518k
Let by floor, 1 floor per year, 12 months rent free		£572k	£545k
One year void, let by floor over three years, 12 months rent free		£141k	£545k



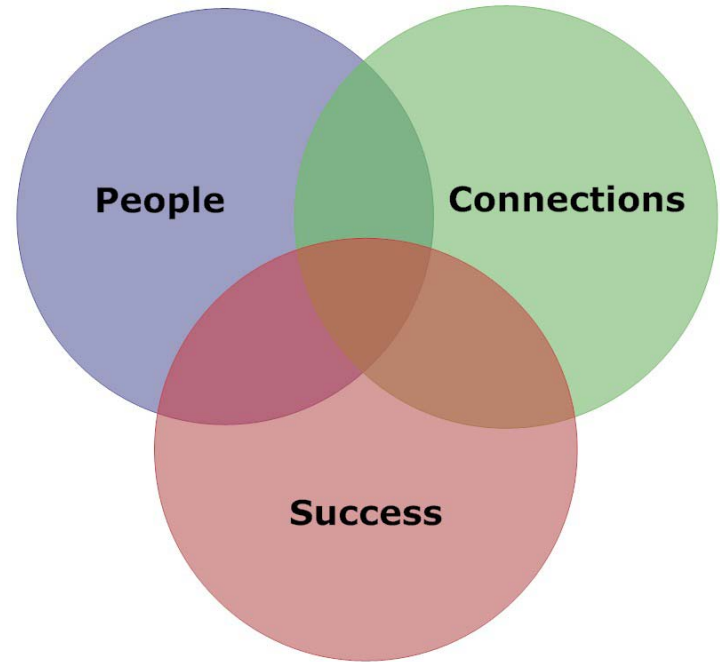
# Case Study – Established Centre

## Net Rent



# The Investment Value-Add of Business & Innovation Centres

- **Creating a personality, destination**
  - On-site staff
  - Design, style
  - Types and structure of events
  - Creating social opportunities
- **Our core business is about people and community**
  - the people who work there
  - the successful entrepreneurs
  - the people that they connect with
- **Innovation Centre Extranet**
  - Networks
  - Signposting partners

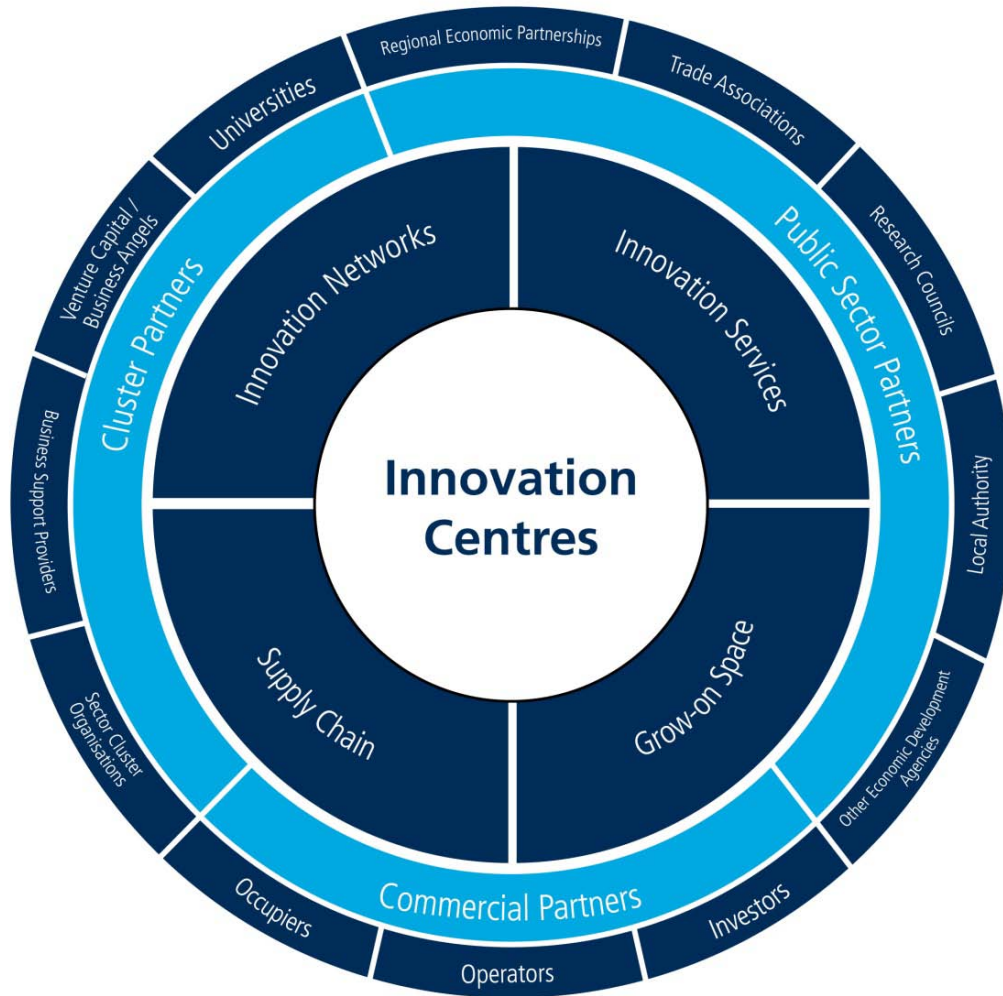


# Alumni Research

- 1417 companies have been through OI centres since 2000
- 64% of alumni are based in science-technology and science sectors
- 68% have graduated from centres in that time
- 80% post graduation survival rate
  
- 76% of alumni companies were based in centres for 3 years and less
- 58% companies graduated because
  - their business was expanding or;
  - they required a different mix of space
- 36% of alumni have expanded their management post graduation
  
- 59% of alumni see networking as important
- 34% of alumni still networking with centre contacts
- 50% want to network with companies within same sectors



# Building a Successful Knowledge Economy



## Innovation Centres

- A catalyst and hub for entrepreneurial activity
- A driver of the innovation eco-system
- Provide returns for private sector investors



Backup

# Case Study – New Centre

## Centre Letting Forecast

Business/Innovation Centre Cashflows							NPV @ 6%
High Case		(£307,796)	(£144,032)	£178,029	£649,815	£649,815	£731,208
Low Case		(£420,004)	(£207,896)	£139,872	£418,802	£499,902	£241,468
<b>Traditional Cashflows</b>							
		27,249 sq.ft.	27,249 sq.ft.	27,249 sq.ft.	27,249 sq.ft.	27,249 sq.ft.	
Special Purchaser - 1 year rent free							
Rent	£20.00 /sq.ft.	£0	£517,731	£517,731	£517,731	£517,731	£1,692,446
Special Purchaser 12 months after completion							
Rent	£20.00 /sq.ft.	£0	£0	£517,732	£517,732	£517,732	
Vacant Space Rates	£5.77 /sq.ft.	(£157,227)					
Vacant Space Service Charge	£3.50 /sq.ft.	(£95,372)					
	<b>CASHFLOW</b>	<b>(£252,598)</b>	<b>£0</b>	<b>£517,732</b>	<b>£517,732</b>	<b>£517,732</b>	<b>£993,370</b>
Let by floor over four years - 1 year rent free							
		5,888 sq.ft.	5,619 sq.ft.	5,258 sq.ft.	10,484 sq.ft.		
Rent	£20.00 /sq.ft.	£0	£117,758	£230,134	£335,299	£544,981	
Vacant Space Rates	£5.77 /sq.ft.	(£123,254)	(£90,833)	(£60,493)	£0	£0	
Vacant Space Service Charge	£3.50 /sq.ft.	(£74,764)	(£55,098)	(£36,694)	£0	£0	
	<b>CASHFLOW</b>	<b>(£198,018)</b>	<b>(£28,173)</b>	<b>£132,946</b>	<b>£335,299</b>	<b>£544,981</b>	<b>£572,570</b>
One year void, let by floor over three years - 1 year rent free							
			5,888 sq.ft.	5,619 sq.ft.	15,742 sq.ft.		
Rent	£20.00 /sq.ft.	£0	£0	£117,758	£230,134	£544,981	
Vacant Space Rates	£5.77 /sq.ft.	(£157,227)	(£123,254)	(£90,833)	£0	£0	
Vacant Space Service Charge	£3.50 /sq.ft.	(£95,372)	(£74,764)	(£55,098)	£0	£0	
	<b>CASHFLOW</b>	<b>(£252,599)</b>	<b>(£198,018)</b>	<b>(£28,173)</b>	<b>£230,134</b>	<b>£544,981</b>	<b>£151,339</b>

